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PLANNING, THE LABOUR GOVERNMENTS
AND BRITISH ECONOMIC POLICY
1943-51

by

ANDREW CHESTER

Submitted for the degree of Ph.D to the
University of Bristol, 1983




FIRST PESSIMIST. "I'm glad it's all over; it's been a terrible time. But think what the next war will be like!"

SECOND PESSIMIST. "Yes - and the next peace!"

Punch, November 20, 1918

MEMORANDUM

This is the original work of
Andrew Chester

..........

10th April 1983

ABSTRACT

During 1945-51, under two Labour governments, the techniques used in British economic policy-making changed from those of the wartime command economy to those of demand management. The widely accepted explanation of this change is that a wartime consensus about the future of economic policy was being consolidated. Evidence from the Public Record Office is used in this thesis to show that the consolidation theory is inadequate and to support a different view of the course of economic policy under the Attlee governments.

A detailed examination of reconstruction discussions in 1943-5, about the future of economic policy, leads to doubts about the scope and solidity of the consensus achieved in wartime between Labour and Conservative ministers, economic advisers and senior administrators. There was broad agreement about the aims of post-war economic policy, notably the need to maintain 'a high and stable level of employment', but there was disagreement about the instruments of economic policy to be used. Labour ministers were committed to testing a variety of ideas about economic planning which had become influential in the labour movement during the 1930's, whereas most of their colleagues wanted to limit economic policy reform to less radical methods.

The Attlee governments did try to implement various forms of economic planning in their attempts to attain ambitious economic and social objectives in difficult conditions. Their efforts ran into obstacles, and after much controversy some experiments were abandoned and the range of economic policy instruments was reduced in practice. Despite this, Labour ministers did not accept that it would be sufficient to rely on fiscal and monetary instruments alone to maintain full employment without inflation in the long-term. Hence, events during 1945-51 were at least as important as any during the war for the future of economic policy and the Labour Party.

CONTENTS

	page
Abstract	iv
List of tables and figures	vi
INTRODUCTION	1
1 ECONOMIC PLANNING BEFORE 1945	18
2 POST-WAR RECONSTRUCTION DISCUSSIONS, 1943-5	59
3 THE LABOUR GOVERNMENT'S FIRST STEPS, 1945-6	106
4 1947: THE ECONOMIC SURVEY AND THE FUEL CRISIS	150
5 1947: THE CONVERTIBILITY CRISIS	196
6 RECOVERY, DISINFLATION AND DECONTROL, 1948	237
7 THE AFTERMATH OF ECONOMIC PLANNING, 1949-51	280
CONCLUSIONS	325
APPENDICES	
I Brief guide to ministers and officials mentioned in text	335
II The Board of Trade production departments and their relations with industry, by S. Golt	338
BIBLIOGRAPHY	
A. Public Record Office documents	346
B. Official publications	367
C. Secondary sources	368

LIST OF TABLES AND FIGURES

<u>Tables</u>	Page
1 Numbers in civilian employment and the armed forces, 1938, 1945-51	125
2 Total sales of electricity in Great Britain, 1938, 1945-51	166
3 Coalmining labour force in the U.K., 1938, 1945-51	168
4 Output of coal in the United Kingdom, 1938, 1945-51	170
5 Official estimate of government employees engaged in operating economic controls, 1947	183
6 Balance of payments, current account, 1945-51	215
7 Houses built in Great Britain - 1938, 1945-51	225
8 Steel consumption in the United Kingdom, 1937, 1943, 1946-50	254
9 U.K. textile industries labour force, 1938, 1945-51	255
10 Gross fixed investment, 1948 and 1949, from the third report of the Investment Programmes Committee	268
11 Indices of retail prices - 1938, 1943-7; 1947-51	293
12 United Kingdom indices of average weekly wage rates of all workers - 1938, 1943-47; 1947-51	294
13 Unemployment in the United Kingdom, 1938, 1945-51	299

Figures

1 Central government economic intelligence, 1941-5	44
2 Raw materials, allocation and control, 1942-5	47

INTRODUCTION

'Planning as it is now taking shape in this country under our eyes, is something new and constructively revolutionary which will be regarded in times to come as a contribution to civilisation as vital and distinctly British as parliamentary democracy and the rule of law'.⁽¹⁾ This was said in a public speech made by Herbert Morrison in 1946 when, as Lord President of the Council, he was the minister responsible for co-ordinating economic policy. Morrison was expressing the confident mood of the first majority Labour government as it set about transforming peacetime economic policy. Many reacted strongly against the idea that economic planning was a positive development. Professor John Jewkes, a former government economic adviser, wrote in 1948: 'The planned and centrally directed economy must inevitably undermine the economic freedoms and, with them, the whole fabric of a free society'.⁽²⁾ Such polarised statements were common in the second half of the 1940's; but in the early 1950's the word 'Butskellism' was coined, to represent the observable continuity of economic policy between Labour and Conservative governments. A broad consensus had been created which arguably lasted until the 1970's. 'The planned economy and the centralisation of power are no longer socialist objectives', declared Richard Crossman in 1952.⁽³⁾ From different points of view it appeared that the Labour Party had given up the idea of economic planning or that the Conservative Party had adopted it, but in either case the significance of Butskellism was that there was little apparent difference between the economic policy of successive governments.

When and how was this consensus created? At present the most influential and widespread view is that the course of economic policy under the Attlee governments

was more or less programmed by a consensus which had developed within the coalition government towards the end of the Second World War. In The Road to 1945 Paul Addison concluded: 'The Attlee governments of 1945 to 1951 completed and consolidated the work of the coalition by establishing a peacetime managed economy and the expanded welfare state envisaged by Beveridge'.⁽⁴⁾ The coalition consensus on economic policy was formalised in the white paper Employment policy, published in May 1944. In what became one of the most quoted sentences from any official document on economic policy the coalition stated that one of its primary aims would be 'the maintenance of a high and stable level of employment after the war'.⁽⁵⁾ Given favourable trade and payments conditions (a crucial qualification) this was to be achieved by 'maintaining total internal expenditure' - a phrase which essentially conveys the method of what later came to be called demand management. Employment policy was also concerned with the short-term problems of the 'transitional period' immediately after the war: to deal with these it was proposed that any post-war government would temporarily have to retain the system of wartime economic controls to guard against instability during the enormous structural changes that would follow the end of the war.

Given the extent of this agreement, covering both short-term and long-term policy, events between 1945 and 1951 - however colourful and turbulent - have often been dismissed as mere froth on the surface of the pre-existing consensus. True, the policy of economic planning was virulently condemned at the time by some, like Professor Jewkes, who argued that it was opposed to the spirit of Employment policy, while others argued equally strongly that the objectives of the white paper could not be achieved without planning; however, later historians have tended to regard this as a relatively unimportant polemic. According to Paul Addison, 'The commitment to centralised economic planning ... gradually

faded away'.⁽⁶⁾ Similarly, Samuel Brittan has written: 'The controls and regulations which caused so much controversy were basically a hangover, which probably lasted too long, from wartime restrictions'.⁽⁷⁾ Moreover, despite grand proclamations about the significance of economic planning, there can be little dispute that the efforts to implement it had few tangible results. D.N. Chester, one of the most knowledgeable critics of economic policy in this period, came to this conclusion: 'it would..be wrong...to say that Britain had an economic plan...if by economic plan is meant a set of economic objectives, integrated and consistent in their assumptions, which the government had decided to carry out and which they had the power to carry out.'⁽⁸⁾

Nevertheless, the persuasiveness of the consolidation thesis depends, in the first place, on the scope and solidity of the wartime consensus. To the extent that this has been exaggerated, the controversies which took place after the war may, after all, be significant; the emergence of a durable consensus in the early 1950's may have involved events between 1945 and 1951; Employment policy may not have been the crucial turning point of the Keynesian revolution, leading directly to later demand management methods. There are several reasons for suggesting that the idea of wartime consensus has been overdone. Firstly, the labour movement (i.e. the Labour Party and the trade unions) became strongly committed to the idea of economic planning during the 1930's. From being the property of the left-wing fringe in the 1920's, the idea spread throughout the movement after the debacle of the second minority Labour government under Ramsay MacDonald. Although the term economic planning was interpreted in a wide variety of ways once it became popular, it can be argued that its supporters usually wanted to go far beyond what was contemplated by prophets of demand management, and by Keynes in particular. It is difficult to be precise about the centre of gravity of

this planning movement, which extended well beyond the labour movement, but its importance in the 1930's is sufficient to argue that Labour was not simply using an empty slogan when it promised to implement economic planning in the 1945 election campaign. To the extent that Labour came to power with a serious intention of putting economic planning into practice, and to the extent that this required the implementation of policies distinct from those on which the wartime consensus was based, the argument that the development of economic policy in this period was a consolidation of an existing consensus must be open to question.

A second line of argument is based on an examination of the discussions that led up to the publication of Employment policy, and the discussions which continued afterwards about preparations for the transitional period, these being key points at which to assess the potential durability of the wartime consensus. No-one could dispute that Employment policy was the result of some degree of consensus; what is argued here is that the scope and solidity of this was less than adequate to support the notion of subsequent consolidation. There were powerful reasons why some kind of agreed statement on economic policy by the coalition was required in 1944, but many differences had to be brushed over and obscured in order to make it. During the discussions before the publication of Employment policy it was mainly the long-term policy that was controversial, but as the end of the war came near there was also strong pressure for the 'return to normalcy' to be assured by the early lifting of wartime controls. On both major aspects of the white paper policy, therefore, the extent of consensus is open to doubt. Even more important, there was either little discussion or little agreement about major issues which came to the forefront in peacetime. There are therefore good grounds for re-examining the economic policies of the Attlee governments, in particular what was done or

attempted in the name of economic planning, even though the practical outcome does not conform to strict criteria by which planning can be judged.

An alternative to the consolidation thesis is to view the development of economic policy in this period as a series of controversial experiments undertaken in uncertain conditions. The uncertainty resulted partly from difficult economic circumstances, but also arose from a curious double transition of policy. It was generally recognised, though not always accepted, that the state was on the way to becoming permanently more involved in the peacetime economy than it had been before the war, but less involved than it had been during the war. However, within the active lifetime of those concerned with policy-making, the economic role of the state had fluctuated between remarkably wide limits, and this produced an unusually broad spread of ideas within the policy-making machine about what was possible, an effect which was obviously reinforced by Labour's victory in 1945. Given this combination of economic problems and political uncertainty, it was exceptionally difficult to predict, except within quite wide limits, what the outcome of the cross-currents of this double transition would be.

Through this series of experiments ran Labour's theme of economic planning: the problems of implementing planning were explicitly discussed in the first and the last months of the Attlee governments, and on many occasions in between. It can be shown that this theme was constantly controversial among the ministers, senior administrators and economic advisers responsible for economic policy. The development of economic policy proceeded in an atmosphere of conflict between radically different conceptions of the economic role of the state, nowhere more clearly reflected than in the discussions about planning. This basic conflict was mixed up with many other political and technical considerations, but is

sufficiently clear to sustain the argument that movement from the wartime command economy to demand management cannot be correctly understood as the consolidation of a consensus. Not only can the existence of a firm consensus be questioned, but the conduct of policy during 1945-51 had a temper quite different from that to be expected from the idea of consolidation, a temper which arose from basic rather than superficial differences among policy-makers.

I

An important part of the argument of this thesis depends on establishing that the economic policy ideas with which the Labour government began were substantially different from those of the wartime consensus. For reasons of brevity these two sets of ideas are called economic planning and demand management, but several qualifications must be made concerning the use of these terms. First, the former was in use at the time but the latter was not. Second, demand management, in the period of Butskellism and later, involved the use of methods which had not been envisaged in Employment policy. Third, the term economic planning was used so flexibly and generously in the 1930's and 1940's that it is necessary to admit from the outset that no clear-cut distinction between economic planning and demand management is justified.⁽⁹⁾ As used in general political and economic discourse the former often included, or was identical with, the latter. A good example of a rather vague and generalised idea of planning can be found in a private letter Keynes wrote to F.A. Hayek in 1944, giving his views on the latter's book The road to serfdom.⁽¹⁰⁾ Keynes expressed agreement with the moral and philosophical tone of Hayek's book, but questioned its practical proposals, concluding with an interesting statement of Keynes's own view: "I should say that what

we want is not no planning, or even less planning, indeed I should say that we almost certainly want more. But the planning should take place in a community in which as many people as possible ... wholly share your own moral position".⁽¹¹⁾ Keynes's view, which was probably shared by many policy-makers at the time, underlines the difficulty of adopting a simple approach to what the Attlee governments did in the name of economic planning. Keynes was clearly prepared to use the term to cover the policies he supported. Moreover, within a broad definition almost all policy-making involves planning. Instead of a clear-cut idea of economic planning being rejected and replaced by a clear-cut idea of demand management, the development of economic policy during 1945-51 involved a continuous discussion in which different ideas about planning or aspects of planning were discussed and tried out. In view of this it is more accurate to call planning the theme of a series of policy experiments, rather than a fully-fledged policy.

The problems of relating the actual practice of economic policy under the Attlee governments to any clearly defined theoretical framework of economic planning or demand management, or sharp distinction between the two, makes it necessary to clarify in some other way how the development of policy can be approached. The most useful theoretical analysis of economic policy for my purpose was found in Jan Tinbergen's Economic policy, principles and design,⁽¹²⁾ which analyses economic policy at a very general level, starting with the most basic distinction: that between ends and means. This study is mainly concerned with the means rather than the ends of economic policy; though conflicts between objectives, or between objectives and methods, were also very important in this period, and these problems are expanded below. Tinbergen suggests a useful division of the means of economic policy into three major categories: reforms, qualitative policy and

quantitative policy. Reforms are policies which change the 'foundations' or 'structures' of an economy. For example, the abolition of any part of the private ownership of means of production would be a reform of foundations, while an anti-monopoly law would be a reform of structure. Reforms were clearly an important part of Labour's economic policy in the 1940's, but are not central to this study for several reasons. The most important reform was nationalisation, which was closely connected with ideas about economic planning, but this has been exhaustively dealt with by D.N. Chester in his official history.⁽¹³⁾ Apart from nationalisation, reforms were initially less important than they would have been if the policy of economic planning had been attempted well after the end of a war, because of the wide powers made available to the government temporarily, under the extension of wartime emergency legislation. The remaining cases of economic reforms either never really got off the ground (like Industrial Development Councils) or remained on the periphery of policy-making (for example, anti-monopoly legislation).

Qualitative and quantitative policy-making take the existing foundations and structure of the economy as given. Unless it makes reforms, a government has a definite range of policy instruments from which to select in order to achieve its objectives; the process of selection is qualitative policy-making. Many economic policy arguments in this period concerned the use of 'physical' or 'direct' controls versus the use of financial policy, which was a question of qualitative policy-making. The selection of policy instruments can be governed by many factors, not all of them economic, and any explanation of the development of policy must take all these into account. By examining records of policy-making it is often possible to clarify why particular instruments were selected or rejected, and I have aimed primarily at an explanation of qualitative policy-making.

In fact, at its simplest, the movement from wartime command economy to demand economy can be seen as a narrowing of the range of policy instruments, and hence of the scope for qualitative policy. As this happened, the question constantly arose as to whether some means of attaining the goals of planning was being prematurely jettisoned.

At this point it is worth enlarging a little on the remark that, apart from nationalisation, reforms were initially not important for the attempts to implement economic planning. Labour thinking about economic planning in the 1930's assumed that it would be necessary to extend the range of economic policy instruments by reforms, but because of the coalition consensus to retain the legal basis for economic controls at least for the transitional period, it was possible in principle to use a wide range of economic policy instruments which would otherwise have required reforms. During the war the government was able to command the economy almost as if it had abolished the private ownership of the means of production. True, the same techniques proved difficult to use in peacetime, even immediately after the end of the war. However, the legal basis for economic controls did not become an important political issue until later, when the emergency laws were due to expire. Thus, the relationship between reforms and qualitative policy was unusually complex.

The third major category of means is quantitative policy. Target values are usually assigned to variables to be influenced by policy instruments; sometimes, the search for policy instruments takes place after a target has been set. This is using the word 'target' in a very general way, to reflect the fact that a policy instrument can hardly be used aimlessly, and to this extent almost any type of economic policy requires targets. Targets can be divided into 'fixed' or 'flexible'. A fixed target sets a certain value to be attained within a

certain time. A flexible target simply requires change in a particular direction. During 1945-51 there was an explosion of quantitative policy-making, and for a time there was a great emphasis on fixed targets. It would no doubt be possible to make useful additions to the existing analyses of quantitative policy-making in this period,⁽¹⁴⁾ but this has not been my intention. Nevertheless, as with reforms and qualitative policy, there were important interactions between qualitative and quantitative policy-making. For example, the failure, or the expectation of failure, to achieve a target was a frequent cause of policy instruments being dropped; lack of instruments sometimes led to targets being dropped. It is also true that the importance attached to particular targets such as a certain level of coal or steel production caused the search for new policy means to be continued even in the face of great difficulties.

Reforms, ^{and} qualitative and quantitative policy are, then, the three main elements through which it is theoretically possible to grasp the means of economic policy as a whole, and this study focuses on qualitative policy-making. Let us return briefly to the question of aims in economic policy-making. Even in this period, when economic policy had attained such importance, political aims were not always predominantly economic in character; to this extent, policy-makers had to derive economic aims from more general objectives. These consisted of objectives such as certain levels of housing, education, health care and military preparedness, which could be translated into material programmes fairly easily; they also consisted of notions such as individual freedom, which played a key role in qualitative policy, though they concerned the nature of social relationships within the economy rather than any material aim. Making a practical relationship between ends and means in economic policy is notoriously difficult. There may be too many aims, raising the

question of priorities; or aims may be inconsistent or even mutually exclusive. Furthermore, the use of some methods may preclude the achievement of some objectives; this was the view of the anti-planners, who argued very generally that the aim of individual freedom espoused by the Labour government was incompatible with the methods of economic planning they also espoused. At a less ideological level, the continued use of wartime techniques of economic policy was often held to conflict with the objective of greater industrial efficiency, though it served other objectives such as stabilisation and equitable distribution. Obviously, the more a government is trying to achieve and the more difficult the circumstances it is working in, the more complex the dialectic of ends and means becomes. Indeed it is mainly for these reasons that the Labour governments of 1945-51 present such an interesting challenge to the historian of economic policy.

II

The Public Record Office was used as the primary source of evidence. I found several books particularly useful in getting to grips with the records. D.N.Chester's monumental official history The nationalisation of British industry 1945-51 educated me in the mechanism of policy-making in this period. J.C.R Dow's The management of the British economy 1945-60 was crucial for an understanding of how economic management developed in practice over the longer term (as a member of the Economic Section Dow played a part in the development of budget policy in the late 1940's).⁽¹⁵⁾ However, economic planning has only a shadowy presence in Chester's book, and is covered superficially by Dow, though both works point to the importance of the idea in policy-making during 1945-51. This realisation, plus the disagreements with Paul Addison's book The road to 1945 that have

already been mentioned, provided the starting point for research.

At the PRO the biggest problem was the vast number of records relevant to economic policy-making, which had a very wide scope in this period. At one point I made a list of several thousand potentially relevant PRO piece numbers from the Cabinet and inter-departmental machinery, mainly from the Lord President's Office, Cabinet Office, Economic Section, and Central Economic Planning Staff. I also looked at some departmental records, mainly from the Treasury and Board of Trade. By starting at the top of the policy-making machinery and working down, formulating questions as the work progressed, I tried to examine the most significant fraction of economic policy records. A complete list of records given detailed examination in the course of research is included in the bibliography. Stuck in the 'seamless web' of policy, the researcher feels constantly compelled to broaden and deepen the search, in order to explain developments adequately. For example, in the area of foreign policy, Britain's political relationship with the United States was on several occasions explicitly linked with problems of economic planning. Similar points could be made about other areas such as social policy and environmental policy.⁽¹⁶⁾ But it was impractical to examine records of policy-making in these areas except where they became directly involved with economic planning. At the same time, there was the imperative to examine how policies were generated or implemented at a departmental level. However, when I examined departmental records I found that, except for the Treasury, there seemed to be comparatively few records of economic policy-making of similar quality to those of the central machinery. Also, the vast quantities of licences and similar documents, which were the currency of the administered economy, have not survived. Perhaps we should be thankful not to have to

face the 16 miles of shelves of Board of Trade records which official historians could dabble in during the 1940's!(17)

I experimented with different approaches to the PRO evidence. For the reconstruction discussions I concentrated mainly on ministerial committees, and used a formal technique to record the discussions and decisions. For the development of economic planning I examined mainly correspondence files, which I found much less easy to digest with a formal approach. A comprehensive account of the activity of the central machinery of economic policy between 1945 and 1951, though it would be necessary for making a more exhaustive and conclusive account of economic planning, was impractical given the time and resources available. There is evidence that the Cabinet Office found it difficult to keep track of the most important committees at the time, and had even more difficulty with the wider scene, which consisted of some 600-700 inter-departmental committees considered broadly relevant to economic policy.(18)

Some scholars view the present expansion of PRO-centred research with misgivings, and it is worth spending a few sentences to counter these, at least for the case of economic planning. It is sometimes maintained that accurate conclusions about the development of policy have been reached in the past by writers working without official records, and that researchers can become mesmerised by the PRO as a necessary, even sufficient, source of evidence. This is undoubtedly a danger, but it is hard to see how such an archive can be dispensed with in the particular case of economic planning, where administrative decisions and mechanisms displaced so much 'normal' economic activity. To the extent that it is possible to get direct evidence of the nature of bureaucratic or political thinking (not to mention the relationship between the two), then this must be more conclusive than relying on inferences about what went on

inside the black box of policy-making. However, there is also the objection that the PRO material can be very limited. The PRO (or any archive) is like a fossil: the bones remain, but the flesh has disappeared. For example, large quantities of records I examined were forecasts, programmes, allocations and surveys made by officials: quantitative policy-making in the sense defined above. In the event many of these efforts were straws in the wind, unimportant for the overall development of policy or the selection of policy instruments. The records tend to be weakest on evidence of ministerial views. It is a truism that much political decision-making has been done on the telephone or in other informal ways, and this has probably applied more to ministerial than official work. In general, however, a policy of economic planning intrinsically requires a more formal approach by both officials and ministers than some other areas or types of policy, so this truism is perhaps less applicable here. Sufficient written documents about qualitative aspects of economic planning survive to construct a useful account, and it seems improbable that the problems arising from this kind of policy could be decided over the phone or at a dinner party; unlike, say, a leadership struggle.

There is probably truth in the remark that "Often what is written into the official record or preserved for the historian to discover in personal archives are not a statesman's true thoughts, but what he hopes will be thought to be his true thought".⁽¹⁹⁾ However, between 1943 and 1951 there was limited time for the exercise of this kind of vanity, and statesmen (or officials) - where prone - probably used it on the issues that seemed most important to them, which may not be what historians become interested in. The most important materials from my point of view were those reflecting the problems and dilemmas that officials had to 'focus' for ministers, typically involving some clash between policies, or the practicality of a policy objective. With some notable

exceptions, most of these documents seem to have been shaped by practical considerations. The main difficulty was not that vanity might have led to distortion of the records, but the more mundane one of finding the documents relating to the beginnings, ends and turning points of issues, and connecting the language of official writing with the political conflicts that often lay behind it.

ACKNOWLEDGMENTS

I would like to thank my supervisor, Professor Bernard Alford, and other members of the University of Bristol Department of Economic and Social History with whom I had discussions or who were kind enough to read parts of the thesis in draft. Thanks are also due to the staff of the Bristol University library (especially Mike Birtchnell) and the Public Record Office. Rebecca Amiel, besides putting up with the obsessions and depressions of writing a thesis, helped with bibliographic checking. I also had all the aid I could have wished for from my parents, Dee and Andy.

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ECONOMIC PLANNING BEFORE 1945

How did economic planning come to be such an important idea for the Labour Party in 1945? This can be explained mainly as a reaction to the political and economic crisis of 1929-31, which culminated in the fall of the second minority Labour government under Ramsey MacDonald. This traumatic experience led Labour politicians to the view that one of their crucial weaknesses had been the lack of a distinctive economic policy. Subsequently, during the 1930's, there was a succession of radical writings and statements on economic policy by Labour politicians, several of whom who became ministers under Attlee. These provide some evidence of how seriously the Labour Party took the idea of economic planning before 1945, and provide essential background to the various viewpoints in the Attlee governments. In the 1930's there was also a diffuse 'planning movement' which went far outside the Labour Party. This non-socialist planning movement made no direct impact on economic policy before the war, but it did influence post-war policy and its environment. These pre-war developments show that the idea of planning was more than a fashionable slogan in Labour's 1945 election campaign.

I

Before the 1930's, the idea of economic planning in Britain grew partly because of the influence of socialist and collectivist political thought, partly because of the experience of total war between 1914-18, and partly as a consequence of industrial developments. On this last point, Donald Winch has observed: "The increase in the size of business corporations, the divorce of ownership and control, the rise of schemes for concerted action by producers, and the attempt to encourage and regulate this movement by governments, provide one of the dominant

themes of British industrial history in the twentieth century".⁽¹⁾ The economic problems of the inter-war period, and in particular the experience of mass unemployment and regional stagnation, was a further important reason for the development of economic planning ideas. As it developed, the broader planning movement became a diverse, contradictory mixture of all these influences.

Virtually no ideas for economic planning by the state were advanced in Britain before the first world war. Indeed, radical ideas of any kind about the reform of economic policy were rare, not least because the notion of a relationship between the state and the economy as a whole was also virtually absent from politics and economics. The main exceptions were schemes for the redistribution of wealth, and recommendations such as that in the Minority report of the Royal Commission on the Poor Law, that more should be spent on public works in a slump.⁽²⁾ It is not necessary to dwell on the reasons for this, except to note that most writers put it down to the relative stability and success of the British economy before the 1914-18 war.

The first world war itself led to the first significant practical experience in economic planning: inflationary pressure in the first part of the war forced the government to recognise that normal market mechanisms were not adequate to adjust the economy to war production. Some administrative controls over industry were instituted, and the relative efficiency with which the state was then able to fulfil its needs was regarded by some collectivist and socialist thinkers as decisive proof that the state could order the economy better than private firms for other purposes than war. The practical example of the administered war economy became coupled with revulsion against 'war-profiteering' and pressure on the government to carry out a bold social reconstruction programme after the war. However, there was a strong

backlash against economic controls towards the end of the war.⁽³⁾ In the name of a 'return to normalcy' laissez-faire economic policies were largely restored, and reconstruction planning came to very little.⁽⁴⁾ The pent-up pressure of monetary incomes earned during the war, combined with wildly exaggerated expectations about the fruits of 'victory', led to a boom which could not be sustained. In reality a whole series of changes had taken place, particularly in the international economy, which made the idea of a 'return to normalcy' untenable. Decontrol did not create the longer-term malaise of the inter-war period, but it added to the problems. Two main lessons were drawn from these events during the second world war. First, the government headed much more quickly towards overall planning of the economy at the beginning of the war. Second, as early as 1941 the economist A.C. Pigou was responsible for an official report on the transitional period after the first world war, in which it was cautiously concluded that some of the monetary and employment instabilities of that time had resulted from the abolition of controls. ⁽⁵⁾ It was soon agreed that controls would have to be retained after the second world war. Furthermore, there was a vigorous popular determination that reconstruction would not fail again as it had done in 1918. This was in contrast to the movement for a 'return to normalcy' at the end of the first world war, when those who thought that wartime methods could usefully be continued into peacetime found themselves politically isolated.

The idea of planning the British economy in peacetime re-emerged in the mid-1920's, in left-wing programmes for dealing with mass unemployment. The ideas in two pamphlets can be taken as representative. Revolution by reason was written by Oswald Mosley and John Strachey (the latter - who became a minister under Attlee - being responsible for most of the economic arguments).⁽⁶⁾ The living wage was published by the Independent Labour

Party. Both placed the main emphasis on financial remedies, but argued that these financial measures would not be enough by themselves to ensure increased output and employment. Other proposals were therefore made, ranging from import boards to the socialisation of recalcitrant firms. Indeed, it is the comprehensive and inter-locking argument of these programmes that marks them out as precursors of the planning movement. It is also notable that the formulation of these Left-wing planning proposals of the 1920's involved politicians, economists and ex-administrators who had wartime experience, such as E.M.H. Lloyd and E.F. Wise. Of the latter Pimlott has observed: "Unlike almost any other prominent political figure of the time, he combined an intimate knowledge of economics with an extensive experience of government administration, acquired at the one time at which planning had official sanction - during the First War".⁽⁷⁾ The idea of planning did not remain a left-wing monopoly: another programme of the 1920's which had points in common with later planning schemes was Britain's industrial future, published by the Liberal Party in 1928. Like the left-wing programmes published earlier, it was mainly designed to end mass unemployment. Its centrepiece was a policy of public investment, especially road-building. Targets were set for the number of jobs to be created, and for costs and completion times. To co-ordinate economic policy the Liberals wanted an 'economic general staff' and a 'council of industry'.⁽⁸⁾ This was a radical approach to economic policy at the time, with which Baldwin's government had no sympathy; it replied that the whole range of schemes was unworkable, an attitude based on the well-known 'Treasury view': that public investment would merely displace private investment and thus could not create extra employment.⁽⁹⁾

Thus the idea of planning gained some acceptance across a broad spectrum of British politics during the

1920's, on the grounds that mass unemployment was a kind of social emergency in which the government should take action. Yet economic planning was dismissed by Ramsay MacDonald, at a Labour Party conference in 1927, as a "flashy futility".⁽¹⁰⁾ When Baldwin's Conservative government was replaced in 1929 by a minority Labour government, MacDonald preferred Gladstonian financial orthodoxy to the radical solutions put forward by the ILP and Mosley from within, or by Lloyd George and the Liberal Party from without. The Labour Party conference of 1927 had effectively killed the proposals of The living wage by referring them to the executive. Mosley's ideas were turned down by the Labour cabinet in 1930.⁽¹¹⁾ Subsequently, Mosley contemptuously asked: "What would you think of a Salvation Army that took to its heels on the Day of Judgement".⁽¹²⁾

If MacDonald's government had initiated an interventionist economic policy it can be conjectured that it would have run into strong opposition from civil servants. For example, Sir John Anderson was a member of the civil service secretariat set up to co-ordinate the work being done on the unemployment problem when it got suddenly worse in 1929. Writing to MacDonald, Anderson perfectly expressed the prevailing mood of economic fatalism when he compared the government's position with that of "the captain and officers of a great ship which has run aground on a falling tide; no human endeavour will get the ship afloat until in the course of nature the tide again begins to flow". However, in reality there was no conflict between the government and officials on this point; MacDonald replied that Anderson's letter expressed exactly his own frame of mind.⁽¹³⁾ As Skidelsky has concluded, the Labour Party had "no practical socialist economic policy, no theory of how to use Parliament to further socialist aims. Socialism explained the past and promised the future; it had nothing to offer the present".⁽¹⁴⁾ This became

crystal clear at the time of the 1931 crisis, a key turning point in the history of the Labour Party which remained an important reference point in the minds of leading Labour politicians; this is shown, for example, by the fact that it is explicitly mentioned in the minutes of several ministerial meetings under the Attlee governments.(15)

After the Left-wing proposals of the 1920's had been rejected, a new initiative for the labour movement to develop its own distinctive economic policy came from the trade unions. During the 1931 political crisis the unions bitterly opposed proposed cuts in unemployment benefits, to the point of splitting the government; but they discovered that they had no persuasive counter-proposals.(16). Until this crisis, the trade unions had kept aloof from Labour Party disputes about economic policy, but in the early 1930's the TUC began to press the Labour Party to develop a new economic strategy. The TUC's own research department tried to synthesise Labour Party aims with Keynesianism.(17) Specialist groups to study economic policy were also set up by the Labour Party. The result of this effort was that within a short time economic planning became the concept around which economic policy proposals from every shade of Labour opinion revolved. The radicalism of this, particularly in the trade union movement, should not be exaggerated. In 1931, Arthur Pugh, speaking at the TUC congress, welcomed "the...tendency towards a planned and regulated economy in our national life".(18) However, the following year, relating the General Council's annual report to the "fashionable" use of the term 'planning', it was stressed that the TUC did not favour "detailed supervision and regimentation all through the economic system". Instead, "continuous progress should be made towards the intelligent organisation of production, distribution and finance in the interests of the whole community".(19) The TUC's commitment to a rather vague

form of economic planning fitted in with broader industrial developments, or so it was hoped.

The situation within the labour movement as a whole was complex. While the TUC General Council had moved to the right after the General Strike, after the 1931 crisis the Labour Party moved to the left. Within the party the idea of economic planning as a specifically socialist form of economic policy was taken up by the Left-wing Socialist League after the exit of the ILP in 1932. However, planning was not a left-wing monopoly in the Labour Party of the 1930's, it was also espoused by the New Fabian Research Bureau and individual writers such as Douglas Jay and Evan Durbin on the right of the party.

To illustrate this wide range of views it is useful to begin with G.D.H. Cole, who argued that Labour needed both an 'immediate programme' and a workable idea of how to bring about Socialism. In the 1930's, Cole set out his own views on socialist economic policy in a number of works on economic planning, which were influential in the Labour Party.⁽²⁰⁾ In his most detailed economic work, Principles of economic planning (1935), Cole examined non-socialist planning ideas and concluded that they must all fail in the face of opposition from private interests. He thought that public works begun as stabilising projects would, in the long-term, invade all large-scale production, and thus provoke hostility from capitalists.⁽²¹⁾ For Cole only a total solution was adequate: "...all industries ought to be conducted in accordance with a comprehensive plan directed to the public interest and finally subject 'to democratic control'.⁽²²⁾ He visualised the integration of the parliamentary political system with a socialist economy. Both production and the distribution of income would be centrally planned. Trade would be planned as far as possible. All aspects of planning would be co-ordinated through machinery directly responsible to the Cabinet, while democratic control would be safeguarded by

Parliament.

Stafford Cripps, at this time a leading light in the left-wing Socialist League, suggested using Orders-in-Council to "wrest" control from the capitalists in the transition to socialism. A former Solicitor-General and member of the Parliamentary Bar, Cripps' writing utilised existing trends in government as the basis of future socialist practice. For example he drew attention to the operation of the Import Duties Act. Cripps wanted a reform of Parliament in the longer term, but thought that there would be "no time to enter upon a reform of Parliamentary institutions before starting upon the introduction of socialism".⁽²³⁾ Cripps envisaged a form of democratic planning once socialism was established. An annual plan would be drawn up by an Economic General Staff. Discussion of a Planning and Finance Act would allow Parliament to focus on economic policy.

Cripps and the Socialist League had no more success than the ILP before them in getting the labour movement as a whole to accept their vision of how to bring about the final end of capitalism. The crisis of 1931, however, to an extent also radicalised the reformist majority of the Labour Party. The most important illustration of this tendency is to be found Dalton's Practical socialism for Britain (1935), a post-crisis synthesis of Labour policy with a strong planning theme. Dalton argued that planning was not the same as socialism because the latter was a question of ownership, while the former was a question of control. For Dalton, "both in the expanding socialised sector and in the dwindling private sector, there should be social planning".⁽²⁴⁾ He stressed the extent of his agreement with non-socialists in the diagnosis and prognosis of the problems of individual industries, and linked this with the prospects for shifting the centre of gravity of British politics to the Left. For planning in the socialised sector, Dalton proposed that the boards of public corporations should

produce plans for the industries they controlled and that some part of the central machinery of government should be responsible for relations between public corporations. Social planning of the private sector would depend on reforms of financial mechanisms. First, the stabilisation of the internal price level and exchange rates through a centrally managed currency, with the Bank of England more closely related to the government. Second, the control of long term credit through a National Investment Board able to control both the quantity and direction of investment. Third, the creation of a National Banking Corporation for the provision of short-term credit. These changes, Dalton argued, would enable a future Labour government to implement a programme of expanding employment without hindrance from finance capital.⁽²⁵⁾ In order that all the separate kinds of intervention should be co-ordinated through the machinery of central government, Dalton visualised a Cabinet committee with its own staff, an extension of the Cabinet secretariat, composed of experts, permanent civil servants and 'temporaries'. This staff would in effect be a planning department, able to construct and implement plans.⁽²⁶⁾

Dalton's was not the political visionary's idea of planning; unlike Cripps' it did not involve 'wresting' power from capitalists in a quick and dramatic transition to Socialism. In fact, Dalton suggested pragmatically that a future Labour government could begin with a minimum of planning machinery: each minister would push ahead with departmental programmes until the stage was reached where co-ordination would be necessary. It could be foreseen that the implementation of a set of separate reforms would require some form of central planning, and this is what planning came to mean for many Labour supporters. Moreover, unlike Cole, Dalton did not see private interests and the aims of a Labour government aims as mutually exclusive.

The scope of Dalton's synthesis was vast, including proposals for the reform of democracy and parliamentary procedure, the planning of external trade, geographical planning, and control of the location of industry. In short, it covered everything which had been a subject of policy discussion or public debate. Similar ideas can be found in many Labour writings on economic policy in the 1930's: in Morrison's Socialisation and Transport, in Attlee's The will and the way to Socialism and in W.A. Robson's Public Enterprise.⁽²⁷⁾ It can be concluded that the idea of planning had affected all shades of Labour opinion by the mid-1930's.

II

Many planners in the Labour Party, as Dalton made clear in Practical socialism for Britain, were keen to reflect thinking from outside the party, no doubt in the hope of increasing the Labour Party's support in the political middle-ground. The opportunities for this certainly existed. There was a wide spectrum of planners who saw themselves as 'non-political', and certainly were not members of a political party, and therefore could be freely quoted and supported by reformers in various parties. Independent pressure groups such as Political and Economic Planning were formed on this basis. A leading example of this strand of the planning movement was the Next Five Years Group, which brought together a large number of planners with different points of view. They asserted that the price system had ceased to bring equilibrium in some spheres of the economy. Indeed, they claimed, "the motive of profit-making has, to a greater extent than is commonly realised, ceased to be the mainspring of economic activity in this country: and we think it safe to assume that this tendency will continue in the future."⁽²⁸⁾ The main themes of economic policy under the National Government in the 1930's were a

tariff, a managed currency and rationalisation schemes; changes in the direction of economic policy which followed the collapse of the Gold Standard in 1931. This meant, the Next Five Years Group pointed out, that "an elaborate and extensive system of state control is being built up haphazard, successive measures being determined by emergencies or by the successful pressure of some sectional interest, and neither related to any general conception or scheme nor co-ordinated among themselves".(29) The non-socialist planners believed that they were developing a new kind of common sense in economic policy, related to changes in the economy.

The planning movement has sometimes been dismissed as incoherent by those who argue that Keynesianism was the most important development in this period. For example, Winch makes two critical points about the planners: he asserts that the movement was "based on an amorphous and eclectic set of ideas possessing none of the intellectual clarity of Keynesianism";(30) also, "Considered as contributions to the unemployment problem, the efforts of the planners in this period were likely to be in conflict with those of Keynes".(31) The latter criticism is based on the argument that the majority of planners advocated monopolisation, without considering the effects on total output and prices, and ignoring the reflationary potential of financial policy. Keynes, for example, urged Macmillan to stress reflation rather than re-organisation.(32) He also objected to Roosevelt's New Deal 'planning', because its focus was the individual firm rather than the whole economy. Keynes urged the New Dealers to install central economic controls and a programme of loan-financed public works.(33) Roosevelt's eclectic approach, leading to economic policies that were contradictory in practice, is well-known, as is the conclusion that the New Deal measures did not create a consistent recovery in the US during the 1930's.

In fact the British non-socialist planners did not always ignore the effects of monopoly on price and output. The public corporation was widely seen as an answer to this problem, because it was believed that public monopolies could be made to behave differently to private monopolies. Nor did the planners completely ignore the potential of financial policy. For example, according to the Next Five Years Group, the banks largely determined "whether at any time expansion should be encouraged by easy or cheap money or discouraged by the opposite; and this may well be a decisive factor both in the general economic position and in the specific schemes which a government may be promoting".⁽³⁴⁾ It is more accurate to say that it was one of the themes of planners of all political hues that financial policies alone would not solve current economic problems, and this made them distinct from those Keynesians who counterposed financial remedies to all others. But the distinction between Keynesians and planners is more difficult to draw if more of Keynes' own ideas are brought into the picture. The outlook of many non-socialist planners was not so different from that of Keynes in his essay The End of Laissez-Faire (1926), in which he envisaged various types of state intervention. For example, he argued that "technically social" activities should be separated from "technically individual" ones, and that the state should take on those activities that individuals could not. He therefore supported the trend towards the creation of public corporations, and urged the collection and dissemination of economic information by the government.⁽³⁵⁾ He also thought that a "co-ordinated act of intelligent judgement is required as to the scale on which it is desirable that the community as a whole should save".⁽³⁶⁾ On a practical level, he took part in an attempt to reorganise the cotton industry in the early 1930's. His later work concentrated almost entirely on financial remedies; but it is not true that he then

excluded all other remedies, even though he saw them as secondary.

As for the issue of intellectual clarity, not everyone was convinced at the time that Keynes had stated his case for financial reflation very clearly,⁽³⁷⁾ but part of the reason why Keynes's later writings are less amorphous than the planners' lies in the nature of his subject matter: according to Cairncross, "He was, par excellence, the Treasury man, the believer in financial agencies of control, who would regulate the economy by skilful management rather than by interventions operating directly on supply".⁽³⁸⁾ It is wrong to reduce Keynes's thought to this formula, but it is easy to see how ideas about the financial management of a whole economy can appear to have more intellectual clarity than sets of schemes for rationalising industries or regulating the location of industries, although both have been important aspects of economic policy.

Some of Keynes's close associates encompassed a much wider range of economic policy than Keynes himself chose to write about in the 1930's. For example, J.E. Meade - who could not be fairly accused of being amorphous or eclectic in his thinking - took the whole range of contemporary theoretical economics and considered its implications for policy in his book Economic Analysis and Policy.⁽³⁹⁾ Meade was a member of the Keynesian 'Cambridge Circus'; with R.F.Kahn, he helped Keynes to make the transition from the Treatise on Money to the General Theory.⁽⁴⁰⁾ His work was widely influential: Douglas Jay has written that The Socialist Case owed more to Meade's book than any other printed work; John Strachey, in turn, was convinced by Jay's book that "socialist governments working within the system" could "abolish capitalist crises".⁽⁴¹⁾ In wartime, Meade later became a member of the Economic Section of the Cabinet Office, and was one of the activists who pushed forward the Beveridge plan and schemes for full employment. After

the war he was, for a time, the head of the Economic Section of the Cabinet Office and as such the Labour government's chief economic adviser. In his theoretical work of the 1930's, Meade acknowledged his debt to Keynes, and his efforts anticipated much of what later became Keynesian orthodoxy. An example of this is his programme for the reform of the international economy. For international trade he was in favour of a monetary system 'managed' by central banks, a lowering of trade barriers and an international agreement that full employment within countries be maintained by "control of internal banking policy, the stimulation of public works expenditure, and of expenditure on consumption goods".(42) (Meade differed from Keynes in arguing that measures directed at investment would probably not be sufficient to prevent unemployment and therefore proposed raising effective demand by public expenditure aimed at consumption.) In other ways, Meade was very close to the planning movement. He stressed the problem of monopoly, questioning the efficacy of the most often proposed remedies: anti-combination laws, rationalisation and price control. He suggested that industries with very high capital expenditure should be socialised, a proposal which led him to look at the problems of public management and planning of industries and groups of industries, and he even examined the case of a completely socialised economy, thus entering the territory of the theoretical 'planning debate' being vigorously conducted in academic economic circles during the 1930's.(43) The breadth of Meade's analysis belies the view that a sharp distinction can be made between planners and Keynesians in the 1930's; instead it can be suggested that this is a product of hindsight.

The theoretical planning debate just mentioned is another interesting example of the ways in which the idea of economic planning was made respectable in the 1930's. Its origins lie in an obscure article, The Ministry of

Production in a Collectivist State (1908), in which the Italian economist Barone showed that in general equilibrium theory there is a formal similarity of the economic problem in a purely competitive and a centrally-planned economy, concluding that scarce resources could be efficiently allocated in both.⁽⁴⁴⁾ In the 1920's Von Mises, Hayek and others attempted to argue that, in principle, a centrally-planned economy could not solve the economic problem, claiming that without markets and prices decisions about what to produce and how much to produce would degenerate into irrational chaos.⁽⁴⁵⁾ During the 1930's the planning debate developed in several interesting directions. The anti-planners were forced to retreat to the position that in practice a central planning authority could never obtain the information necessary to solve the equilibrium equations.⁽⁴⁶⁾ Meanwhile, some theorists of planning moved towards hybrid models of centrally-planned and market economies. For example, R.L. Hall (who later became chief of the Economic Section of the Cabinet Office) used Paretian theory to argue the feasibility of a socialist economy which retained many features of a market economy.⁽⁴⁷⁾ A number of young intellectuals destined to become Labour ministers took this approach to economic planning. It was the basis for the economic ideas in the writings of Douglas Jay and Evan Durbin. Philip Williams has related the story of how Gaitskell went to Vienna in 1933 to argue with Von Mises that there could be rational pricing in a socialist state.⁽⁴⁸⁾ Part of the political significance of the planning debate was that by adopting subjective value theory as the bedrock of their arguments it was possible for supporters of economic planning to avoid the charge of alignment with Marxism and the Soviet model of planning. Not many would have agreed with George Bernard Shaw's glib assertion: "As to where Socialism stands today, we told it to go to Russia and it has. We shall have to copy

Russia presently in consequence, though Marxism was a genuine British Museum export."(49)

There were, in fact, also Marxist voices within the academic framework of the planning debate. Maurice Dobb argued that the concepts of neo-classical theory did not allow the full practical merits of planning to emerge. Besides, he asked, what was the point of a planning system if it was only a perfect mimic of a market system? Dobb based his arguments on a detailed analysis of economic development in the Soviet Union.(50) For many on the British left in the 1930's the practical example of the Soviet Union was closely linked with Marxist theory and the idea of economic planning - not least through the popular writings of John Strachey, disseminated through the Left Book Club. Not only Marxists were attracted to the Soviet model: the Webbs' optimistic study of the the Soviet Union reflected a Fabian belief in the effectiveness of using the state to solve social and economic problems. Their enthusiasm is said to have influenced Beveridge in the later 1930's.(51)

Thus, during the 1930's there was a ferment of discussion about economic policy. As with any similar movement there were contradictory ideas, and many cases where different political and theoretical ideas overlapped. In the event, 'Keynesianism' became dominant in the 1950's, but it is not exactly clear what constituted Keynesianism as against economic planning in the 1930's; there is no basis for making a clear-cut distinction between the two. Instead, the ideas of Keynesianism and economic planning were together fed into the series of practical economic policy experiments which were carried out by the Labour governments of 1945-51.

The turmoil of debate about the future of economic policy just described had little practical influence on policy-making in the inter-war period. This can be shown by reference to the fate of one key proposal: almost

every economic policy reformer of the inter-war period advocated changes in the machinery of central government, the most popular proposal being that there should be an 'Economic General Staff', employing economists. Opinions varied about whether the body should have executive functions or advisory status, but the idea that economic expertise should come closer to the centre of government was common ground. The setting up of a secret Economic Advisory Council was one of the innovative acts of the 1929-31 Labour government, but it was not a great success. The EAC was not integrated with the work of the government and civil service. Snowden and the Treasury cold-shouldered it. MacDonald chaired its meetings weakly, thus causing delay in getting down to fundamental issues. There was dissension between economists and businessmen, not to mention economist and economist. Keynes, a member of the EAC, persuaded MacDonald to set up a committee of economists "To produce ... an agreed diagnosis of our present problems and a reasoned list of possible remedies", the result was an unspectacular compromise after a lot of heated theoretical debate.⁽⁵²⁾ The economists' report was ignored by the cabinet. The arguments in the EAC probably confirmed Keynes in his resolve to "bring to an issue the deep divergences of opinion between fellow economists which have for the time being almost destroyed the practical influence of economic theory".⁽⁵³⁾

Although the government did continue to take expert economic advice, and EAC members were involved in the major changes of policy which followed the collapse of the gold standard in the summer of 1931, this episode was not an auspicious start to putting into practice the idea of an Economic General Staff. Under the National Government there was a retreat from the original conception of the Economic Advisory Council, but a Committee on Economic Information was retained, to provide advice on various problems, providing a link to

the next development in central government machinery for economic policy - the setting up of the Central Economic Information Service in 1939.

This brief survey of the development of the idea of planning before 1939 has demonstrated the diversity of approaches involved in the planning movement in the Labour Party and more widely. It was to the great advantage of the Labour Party was that it was able to harness this diffuse movement of thought, which helped it to capture the middle ground and the left in 1945. This was possible because all the trends of thinking about economic planning co-existed within the Labour Party; but many contending views of how economic planning ought to be implemented proved a disadvantage when Labour set up a government. Differences had remained unresolved as, in the course of the 1930's, political attention and intellectual interest moved away from economic policy to international affairs. Nevertheless the idea of economic planning was imprinted on the minds of future policy-makers, and it was an idea shared by all those who wanted a future Labour government to avoid another debacle like that of 1931.

III

When the Labour government was formed in July 1945, the day-to-day business of economic policy was dominated by wartime or transitional problems which were solved by wartime methods. Most of the senior ministers in Attlee's governments had practical experience - as ministers or temporary civil servants - of the wartime command economy, experience which strongly influenced their approach to post-war problems. The war gave rise to specific economic problems which required the extension of wartime methods, and also stimulated the view that economic planning would be feasible in peacetime. There follows a brief account of the

development of wartime economic planning, to illuminate these points and provide some necessary background information about the nature of the economic machinery which continued to play an important role in policy-making up to 1951.

The origins of economic planning in the second world war are to be found in the Anglo-French view of the coming war developed in the 1930's: to prepare immediately to resist a quick knock-out blow by Germany and build up military production in the course of a long war in which, it was believed, the superior combined resources of the two empires would prove decisive. In the event, the power of the initial German blow was underestimated, as was the size of the military production base from which the war effort could be smoothly built up.⁽⁵⁴⁾ The latter problem became evident as soon as the war began, when the financial and political constraints on rearmament were removed. Bottlenecks immediately appeared in the supply of raw materials and skilled labour, causing problems in the acceleration of military production. However, throughout the 'phoney war', economic controls were used sparingly. A policy of total mobilisation was adopted only after the crises of 1940. Wartime planner E.A.G. Robinson later wrote: "There was no conscious thought in the early stages of a definite goal in the form of a perfect war economy towards which we were moving. At each stage we relied on the working of the normal incentives so far as they were practicable, and replaced them only to the extent that they appeared at a particular moment to be working badly in a particular field".⁽⁵⁵⁾

In the war economy, military production was the leading sector, and its growth and decline can very simply be divided into four phases. The first phase, investment in increased capacity, began before the war. The second phase was dominated by production of equipment for the expanding armed forces. In the third phase war

production was maintained at a point sufficient to cover losses, which meant that it could be levelled off or even reduced. By the fourth and last phase the end of the war was in sight, and stocks could be reduced, allowing some reconversion of capacity, a process which was completed after the end of the war.⁽⁵⁶⁾ For the economy as a whole, the guiding principle of policy changed from 'normal trade' to 'level economy' to 'everything for the war'. These changes were accompanied by a growth of administrative controls. At the start of the war the price system was allowed to operate while most supplies were plentiful, but by the end it was necessary to reconcile total supplies with total demand for many resources through centrally administered budgets and allocations.

Economic activity was controlled throughout these different phases of the war by regulations stemming from the 1939 Emergency Powers (Defence) Act. In this law the government acquired general powers from which it made legal tools for particular purposes through Orders-in-Council. There was one significant exclusion from the economic powers obtained at the outbreak of war: command over labour. This was at first held to be politically unacceptable, a view which changed after the reverses of 1940 and the formation of the coalition government. The effective use of economic powers required co-ordination and central direction, for which horizontal and vertical integration of the machinery of government was very important. At the start of the war, or even just before, special economic ministries (Food, Supply, Shipping) were set up to carry out government purchasing, to build up strategic stocks, to allocate scarce materials and to gather information. Economic administration was vastly expanded, creating a class of civil service 'temporaries' whose elite was drawn from the academic and business worlds. Virtually the whole of economic life was 'sponsored' by one government department or another.

Inter-departmental machinery was constructed to co-ordinate administrative action. At the centre was the War Cabinet and a complex and shifting structure of ministerial and official committees.

Thus, the government could command through emergency powers and an effective administration, but the war economy depended to a great extent on co-operation between government departments and privately-owned businesses. Raw materials controllers, for example, were usually chosen from among the business leaders in the relevant industry. Some less important controls were operated directly by trade associations. This policy was justified by the argument that only people knowledgeable about conditions in the trades to be controlled could make sound decisions quickly.⁽⁵⁷⁾ Government departments found it easier to deal with centralised bodies rather than each firm in an industry individually, so trade associations and trade unions became an intrinsic part of the machinery of economic policy. They were consulted about how the government could direct particular economic activities; they could relay the warning signals of frictions generated by controls; occasionally they agreed to use their own executive powers to help economic policy. There were complaints of unfair treatment by the hastily improvised wartime economic administration, but the social cohesion brought about by war ensured that serious conflicts were infrequent and localised. Only rarely did the government use its emergency powers against the concerted will of industrialists or trade unionists. Generally, both sides of industry accepted public control and the government designed its policies to create as little friction as possible. Comprehensive economic powers allowed departments to deal very flexibly with problems of control. Examples of very complicated developments in particular controls, to accommodate private business interests, can be found in the official civil histories of the war.

Any given firm, of course, felt the impact of one of a vast number of possible combinations of these controls. At the simplest a firm might be restrained by a lack of a controlled input, a situation that often applied to the contracted 'inessential' industries. In the most complex cases the organisation of government departments and firms virtually merged - with businessmen becoming temporary administrators and government officials being stationed in key factories. The government became most intricately involved in business organisation in war production industries, but there was a limit to this form of central control: partly because firms were reluctant to accept government inspection, and partly because the civil service lacked the necessary technical skills to control production in detail. The two main activities of government planners were:

- (1) reconciling total demand and supply for raw materials and labour,
- (2) drawing up production programmes.

The task of securing the most efficient use of resources within industries was hardly attempted. This would have required specification of not only the type and quantity of output, and the allocation of inputs, but also the methods of production to be used. Postan concluded that government planning was "at least prevented...from penetrating at all deeply into the managerial autonomy of private business".⁽⁵⁸⁾ Even so, it was not unknown for managers of firms to be sacked by ministers if they were thought to be negligent or inefficient.⁽⁵⁹⁾

At the start of the war the government was more concerned with measures to hold prices steady than with detailed allocation of resources. Among the stabilisation measures adopted were price controls and an Excess Profits Tax. Private trading in many raw materials was displaced by government buying, in an attempt to stabilise the cost of raw materials. The government aimed

to keep the cost of living level by a combination of propaganda and food subsidies. What it feared above all was a wage-price spiral, a threat which arose as early as October 1939 when - following a spurt of price rises - the miners put in a wage claim which the employers were willing to concede providing they could raise coal prices. The War Cabinet decided not to confront the miners, but had to decide what to do about future claims. On the assumption that price rises were the main factor leading to pressure for wage rises, it was concluded that if the retail prices index could be stabilised then workers would abstain from wage claims. The aim of stabilising the index began in a small way; later it led to a comprehensive system employing a number of different methods of taxation, subsidies and standardisation schemes which had important implications for post-war policy. In particular, the elimination of food subsidies was a very tricky operation which was carried out after the war in conditions which equally threatened a wage-price spiral. At the start of the war prices rose slowly after the sharp initial rise; open or general inflation was avoided. Apart from hot spots like the skilled labour market there were still ample reserves of labour and industrial capacity. The need to counter internal inflation was well understood after the experience of the first world war, but there had been no regular official national income accounting before the outbreak of war.⁽⁶⁰⁾ The first steps in this direction were taken in 1939 with the appointment of the Stamp Survey of financial and economic plans, which drew on the tradition of central economic advice descended from the Economic Advisory Council. However, a great deal of work had to be done before the government was in a position to design a budget to close the 'inflationary gap'.

Another very difficult area of economic policy in the early part of the war was the balance of payments, which was a constant headache until the advent of Lend-Lease in

March 1941. Import prices were kept down at the start of the war by government trading in food and raw materials, and exchange controls prevented any export of capital or panic flights from sterling. Subsequently it was necessary to requisition and liquidate a large part of British overseas assets to obtain means of payment for imports. Economic policy was also complicated in the early part of the war by the need to run an export drive. The main problem was that the United States was still an 'isolationist' power. The 'cash and carry' provisions of the 1939 Neutrality Act forbade the purchase of war materials on credit terms, so Britain had to obtain dollars for cash payments. At the start of the war the government had to divide the world into 'hard' and 'soft' currency areas. Exports were steered towards dollar markets, while more imports were sought from the sterling area, which could be relied upon for easy credit; however, the build-up of sterling balances throughout the war rebounded on the Labour government during the 1947 convertibility crisis. When Lend-Lease came it was possible to end the export drive, and wartime exports ultimately fell to about one-third of the 1938 volume.

IV

The fall of France in June 1940 was a disastrous setback for the strategy of resisting an initial German knockout blow and building up for victory in the long-term. With Germany dominating the resources of the Continent, and the ultimate necessity of an invasion from Britain, a much larger burden was thrown onto the British war effort. Moreover, the need to resist air attacks and the possibility of an invasion of Britain itself created urgent priorities in war production. 'Normal trade' had already been replaced to a large extent by administrative mechanisms in this sector. But in the absence of effective central reconciliation of demand and supply,

symptoms of repressed inflation appeared: shortages, delays, queues, revisions of programmes and priority listings. Departments inflated their requirements, hoarded resources and 'poached' labour from other departments. As a result, controls such as those on raw materials were operating to some extent in a haphazard way.(61)

In this situation it also became clear that the central machinery of economic policy had a number of flaws. Economic policy was divided fairly obviously into two main areas: military and civilian. Before the start of the war the military machinery had been thoroughly prepared, but the civilian economy was left to Cabinet committees whose responsibilities were unclear or unforeseen, resulting in a lack of central direction and co-ordination. Also, the dominance of the Treasury in economic policy committees meant that inflation and the balance of payments were topics more to the fore than production, shipping, manpower and raw materials. For example, it was possible for an issue as crucial as the allocation of shipping space to slip through the hands of all the committees.(62)

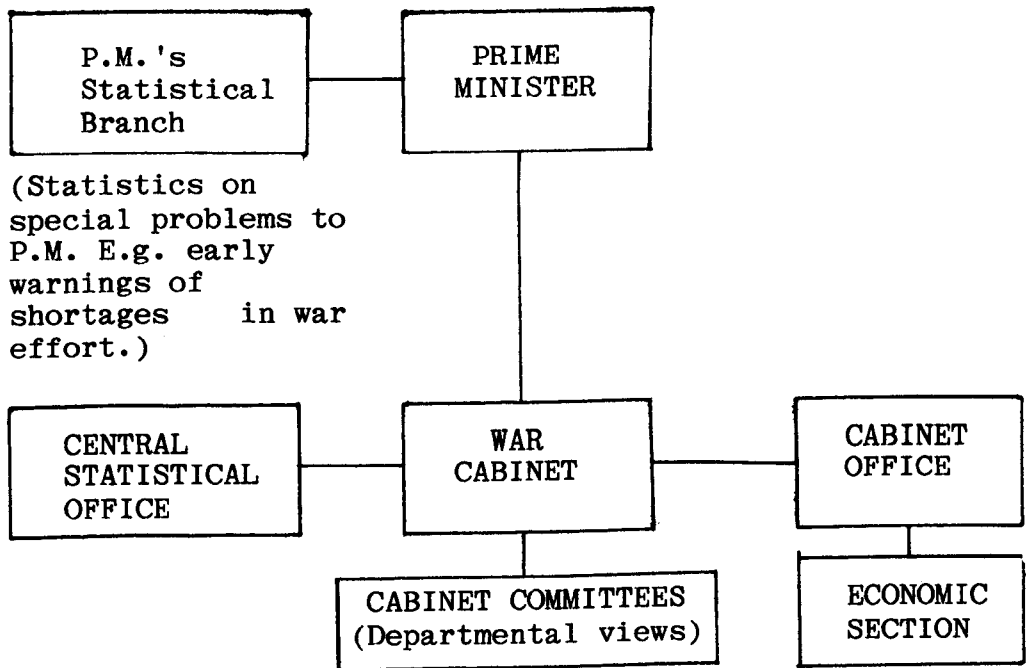
The formation of the coalition government was followed by changes in the central economic policy machinery. The most important immediate change was the decisive demotion of the Treasury from its dominant position. This happened partly because financial considerations were increasingly of secondary importance and partly because the Treasury was too closely identified with the discredited policy of appeasement.(63) Finance still mattered in international trade, but even this was affected by Churchill's determination to reach an accommodation with the United States. The new Chancellor of the Exchequer, Kingsley Wood, was not made a member of the War Cabinet at first, and was not made chairman of the key economic policy committee of the government as his predecessor had been. Instead, the centre of gravity of economic policy shifted

to the office of the Lord President of the Council, a post initially held by the former Prime Minister, Neville Chamberlain. The Lord President's Committee was designated as a 'sub-Cabinet for home affairs'. Its membership overlapped with the War Cabinet, the purpose being to direct 'home affairs' authoritatively while dividing them from the military conduct of the war. The Lord President's Committee's responsibilities ranged wider than economic policy, but a crucial part of its terms of reference was that it should concert and direct the work of ministerial economic policy committees (apart from those dealing with war production), and make sure that no part of the field was left uncovered.⁽⁶⁴⁾

Powerful figures in the coalition government chaired the Lord President's Committee, ensuring that economic issues only went to the War Cabinet if they were very contentious or momentous. Under Sir John Anderson the Lord President's Committee expanded its influence at the expense of other Cabinet committees. When manpower planning became central to economic policy-making, the LPC effectively became responsible for the balance of the economy as a whole, because Anderson played a key role in reconciling all departmental programmes with total supplies of labour. One of the chief problems of central co-ordination and control was to establish economic analyses and facts that were acceptable to all departments. The combination of the Lord President, a non-departmental minister, with central groups of economic advisers and statisticians overcame this difficulty.⁽⁶⁵⁾ (See Figure 1.) Towards the end of the war, under Attlee, the LPC was concerned with the day-to-day work on reconstruction. The LPC continued to play a central role in economic policy-making after the war when Herbert Morrison became Lord President. Only after the 1947 Fuel Crisis, when economic policy machinery was completely revised, did the this committee lose its significance. With that, the post of Lord President also

Figure 1.

CENTRAL GOVERNMENT ECONOMIC INTELLIGENCE, 1941-5



CSO was set up to produce an agreed factual basis for inter-departmental discussions.

Produced regular data on:

- A. Economic situation.
- B. Development of war effort.
- C. Manpower.
- D. Munitions, production and manpower.
- E. Tankers and petroleum products.

The Economic Section was at the disposal of the Lord President for the preparation of special reports. Individual members of the ES also produced reports for committees, including reconstruction committees.

AFTER THE WAR:

- (1) Central Statistical Office continued.
- (2) Prime Minister's Statistical Branch was abolished.
- (3) Economic Section continued in the same form.
- (4) Central Economic Planning Staff was set up in 1947.

Source:

Wilson, S.S. The Cabinet Office to 1945, 1975, p. 110-111

declined in importance.

The coalition also made important changes in manpower policy. Accordingly, when Ernest Bevin became Minister of Labour he reformed social policy and obtained labour movement consent to labour controls. The first steps to manpower planning were made in the summer of 1940 when military equipment programmes were translated into labour volumes by supply departments. The Board of Trade did a similar job for civilian production and exports. From then it took until the end of 1941 for the system connecting military planning and war production, central co-ordination and regional organisations, departments and suppliers, to become fully effective. First the skilled labour shortages had to be overcome, then the more general labour shortages which had become acute by the end of 1941. This was done by industrial conscription, registration of different categories of labour, schemes to reduce labour in civilian industries and the mobilisation of women workers. Once in place the mobility of workers was subject to the Essential Work Order passed in 1941.

These changes in policy and central machinery did not immediately solve all the problems of the wartime coalition. Apart from the LPC the structure of economic policy committees continued to be a shifting one, which there is no point in describing in detail. It took many months to develop an effective system of central co-ordination and control; the coalition government had to settle in, and cope with the series of military crises that followed the fall of France.

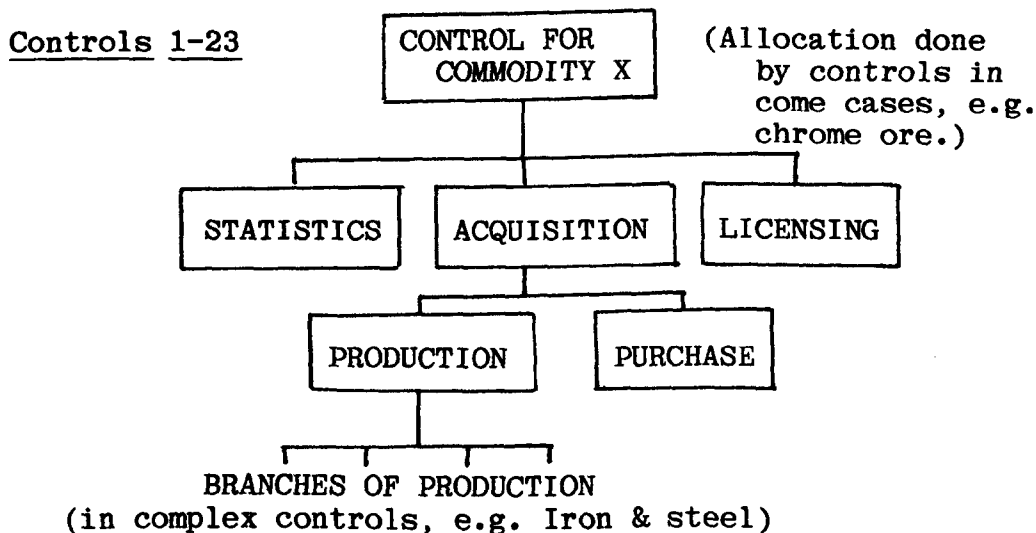
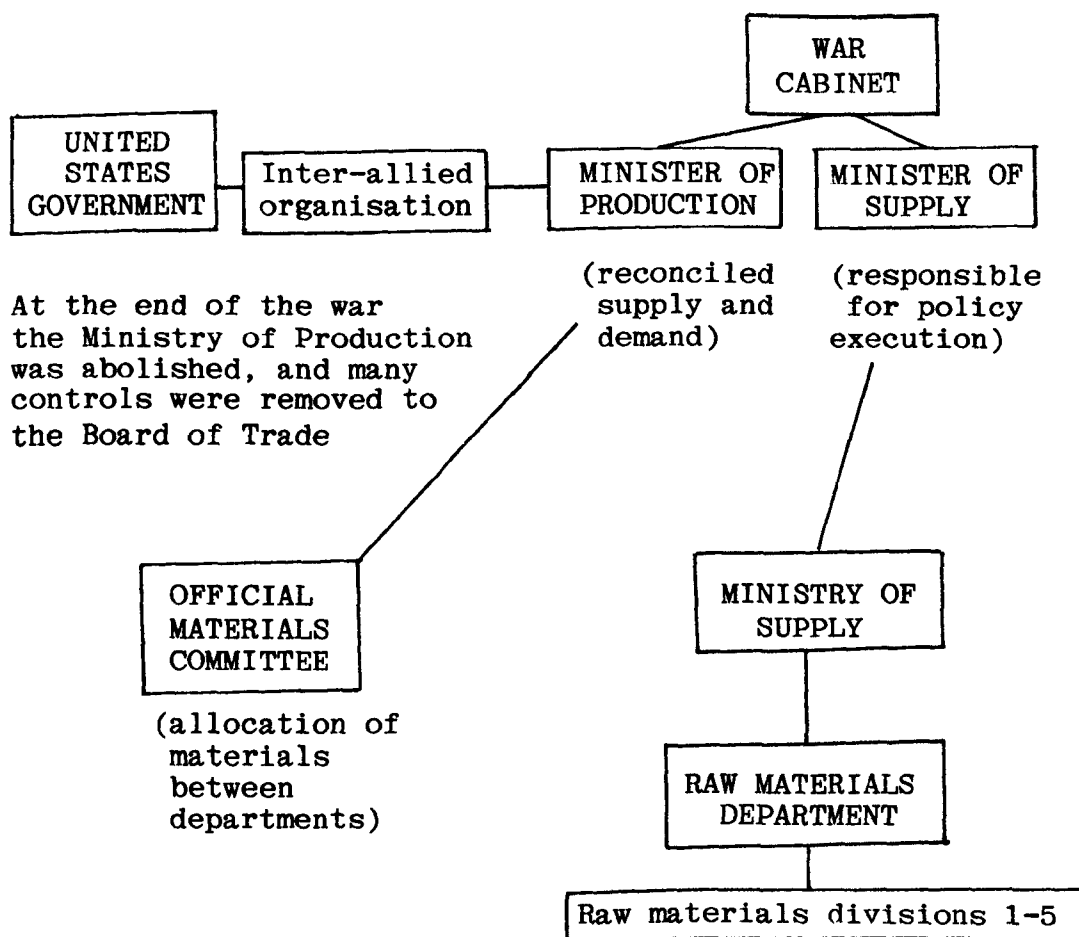
V

The period from May 1940 to the end of 1941 saw rapid developments in the machinery of war production. "The losses of equipment in France, the Battle of Britain, the threat of invasion, the German night-raids, the crisis of

the Libyan campaign, the Battle of the Atlantic and, as the period was drawing to an end, the German invasion of the USSR: each of these events raised urgent problems of production which for a time absorbed the attention of the public and a great deal of war industry's time and effort".⁽⁶⁶⁾ These events dictated the use of a priority system in the short-term, the best known being the crash programme of aircraft production under Beaverbrook in the early days of the Ministry of Aircraft Production. However, the dangers of shortages and disruption of production outside the priority areas led ultimately to the replacement of priorities by central allocations. Particularly important here were the development of raw materials controls and the Materials Committee of the War Cabinet. (See figure 2.) The Materials Committee continued to play an important role after the war.

Flaws in the operation of the war economy were visible to the public as repressed inflation, and this led to considerable agitation for stronger central direction of the war economy both before and after the formation of the coalition government. War production was carried out after May 1940 under the auspices of the Admiralty, the Ministry of Supply and the Ministry of Aircraft Production. This was seen by many as an inefficient division of responsibility leading to muddle, hence the demand for an all-encompassing Ministry of Production. According to the official historians there was much better co-ordination at the centre than could be observed by the public.⁽⁶⁷⁾ Nevertheless, so strong was the pressure for improvements that Churchill agreed in February 1942 to set up a Ministry of Production. On paper this had vast responsibilities; in practice it was more concerned with Anglo-US co-operation than with domestic war production. The idea of a super-ministry to "concert and supervise the activities of the production departments" (as Churchill expressed it to Parliament) was therefore not completely realised.⁽⁶⁸⁾ However, the

Figure 2. RAW MATERIALS: allocation and control, 1942-5



Source:
Hurstfield, J. The control of raw materials, 1953, p. 404-21, and Appendix 87

existence of a strong public lobby for more centralised economic planning in wartime also had other consequences: the pro-planning feeling during the war was not entirely restricted to the immediate war effort; from an early stage adverse comparisons were being made between wartime planning with full employment and peacetime laissez-faire policy with unemployment.(69)

Increased pressure on war production, falling capacity to import, and labour shortages hastened the contraction of the civilian sector after the fall of France. Restrictions on civilian output were accompanied by rationing and 'disinflationary' financial policies. There were further developments in subsidies and price controls (utility schemes, for example, were partly a means of economising on raw materials, partly a means of making price control more effective by homogenising output). The year 1941 was a turning point in financial policy, marked by the first publication of a National Income White Paper,(70) based on the estimation of an 'inflationary gap'. The aim of the budget was to use a combination of taxation, deferred payments to labour and capital, and voluntary savings schemes to close the gap. It was sometimes argued that the civilian economy should simply be treated as a residual after the requirements of the war production and the armed forces had been met. But the majority view in the government was that austerity measures carried too far would endanger morale, lower the efficiency of war production and threaten the reconstruction of a healthy peacetime economy. Even so, the contraction of inessential industries was carried too far in some cases: later in the war it proved far more difficult to reflate industries as war production declined than it had been to contract them at the height of the crisis; this problem particularly affected the textile industry, which had problems in regaining its labour force after the war.

Following the German occupation of the Low Countries

and Norway, coastal and internal transport systems were directly menaced by German forces. Later, the Battle of the Atlantic threatened vital imports. To deal with these perils, special administrative techniques and organisations were developed: the total capacity of the transport system was calculated; import programmes and transport budgets were drawn up; a Ministry of War Transport was set up in May 1941. At first these efforts were tentative and inaccurate, but by the end of the war they were accurate; as they had to be, since demands on transport continually rose, while (with the exception of shipping where US production made a big improvement in the end) few resources could be put to investment. The result was a steady movement towards the comprehensive planning and integration of transport, an achievement which no doubt influenced the Labour government's thinking when it came to set up the British Transport Commission after the war.

Alliance with the US made possible a more intense concentration of British resources into the fighting forces and their equipment. Once the limits on importing capacity had been overcome (by winning the Battle of the Atlantic), and more efficient organisation had eliminated the worst bottlenecks in the domestic economy, the main constraint on the war effort was the number of people available - rather than any financial or material lack. This determined the peak of war production and armed forces, which was reached in 1943.

According to E.A.G. Robinson, "the golden rule of all planning is that it must be done in terms of the scarcest of all resources".⁽⁷¹⁾ This rule propelled the manpower budget to the centre of economic planning: "It was, in fact, the only method the War Cabinet ever possessed of determining the balance of the whole war economy by a central and direct allocation of physical resources among the various sectors".⁽⁷²⁾ How did manpower planning work? Once the War Cabinet had agreed a manpower budget,

departments discussed the revision of programmes in line with their allocations of labour. When this was complete the Ministry of Labour drew up instructions to all its offices. The day-to-day mechanics of the system was a series of 'preference lists', which determined the order in which different vacancies were to be filled. Labour exchanges dealt with details of mobility, skills and individual problems. Allocations were most easily met for the forces and war production industries. The least successful part of the manpower budgets was the attempt, in the latter part of the war, to expand less essential industries. Some industries had special labour problems, notably the coal industry, which had shed labour after the fall of France when the demand for coal fell suddenly as exports to the continent ceased. Later it proved very difficult to get workers to enter the industry voluntarily, and the government finally resorted to industrial conscription by ballot in 1944. But labour direction of this kind was used very sparingly for fear of provoking opposition. Shortage of labour in the mining industry remained a crucial problem in the immediate post-war years. Towards the end of the war it was sometimes assumed that manpower budgets would continue to play a central role in post-war economic policy. In the event, however, the decline of labour controls undermined the government's ability centrally to determine the allocation of labour, and was a factor which threw doubt onto the whole idea of economic planning after the war.

Later in the war, the basic industries underpinning both military and civilian production ran into intractable problems. As with civilian industries, the government tried to curtail the basic industries without endangering the war effort by going too far. Not much attention could be given to what the post-war position would be, and it was difficult to know when the war would end, and therefore whether wear and tear would

overtake an industry and cause breakdown in the war effort. An exception was agriculture, a basic industry in which investment and productivity did increase during the war. Real output rose by over 30%, while output per worker rose by about 10-15%.(73) In other industries there were some gains of a less tangible kind, such as more efficient management: in the war production sector the pressure to execute large-scale programmes quickly led to the introduction of new production techniques. Even in the contracted civilian sector the urge for efficiency was felt in terms of more standardisation and reduction of waste. But these gains were often only relevant to wartime conditions. It is much easier to measure the costs and problems resulting from the war than to quantify any offsetting gains.(74)

VI

To sum up, the period between the fall of France and Pearl Harbour was one in which the various aspects of economic policy developed rapidly, and the beginnings of the fully developed wartime planning system can be discerned in the numerous actions of carried out by the coalition government. A further period was needed for planning to become comprehensive and fully effective. The pressure of priorities had to be overcome. Experience in the operation of controls and the construction of an intricate machinery for economic administration to replace the market economy still had to be acquired. But after an initial period in which goals were unclear and determination lacking, the British war economy was heading for an effort which was more intense, in relation to Britain's resources, than that of the US or Germany.

The grand strategy of the war agreed by the allies in 1942 was divided into three stages:

Stage I culminating in the defeat of Germany,

Stage II running from the defeat of Germany to
the defeat of Japan,

Stage III to be the period from the defeat of
Japan to 'settled peacetime conditions'.

In joint planning Stage III was the 'transitional period', although to some extent it overlapped Stage II because war production began to run down. In practice the end of Stage I came into sight with the D-Day landings, and the peak of mobilisation in the British war economy had already been passed, in 1943; redistribution of resources from the war sector to the civilian sector was increasingly a theme of economic policy in the last two years of the war. War production industries, shipping and manpower policies were affected. The anticipated problems of the balance of payments also returned to the central area of policy-making. The main aims of transitional planning were the restoration of exports, capital equipment and living standards. The central feature of policy-making continued to be the manpower budget: it was estimated that so much labour would become available after each phase of the war was complete, and this formed the starting point for plans to restore the civilian economy and begin work on the most urgent reconstruction projects.⁽⁷⁵⁾ Other techniques of wartime planning were also used in transitional planning: shipping space was allocated to timber imports for the post-war building programme; control over factory space was used to promote the redistribution of industry; export groups formed early in the war were reactivated.

Transitional planning was affected by three areas of uncertainty: the duration and scale of military operations against Germany and Japan, Britain's economic relationship with the United States, and the domestic political scene. The decision of the Labour Party to seek a general election brought one of these issues to a head before the end of the war with Japan. The first use of nuclear weapons ended Stage II after three months,

instead of an expected 18 months. In the relationship with the US, the key issue was the future of Lend-Lease: the government had been hoping for a continuation of Lend-Lease in Stage III; at first it seemed that the Americans had agreed, but the atmosphere in Washington changed after the death of Roosevelt and the defeat of Germany (which followed in quick succession); in the event Lend-Lease was abruptly terminated at the end of Stage II. Together, these unexpected events falsified most of the key assumptions on which planners had been basing their ideas for an orderly transition to peacetime conditions. It has been said that 'war is the unfolding of miscalculations', and this certainly sums up the situation in British wartime economic policy at the end of the second world war. Therefore, the Labour government formed just before the end of the war had to implement a policy of economic planning in conditions that were different from both those that had been anticipated in the policy debates of the 1930's and those that had been prophesied for transitional planning purposes.

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POST-WAR RECONSTRUCTION DISCUSSIONS 1943-5

There were strong reasons for economic planning to become an important theme of economic policy in the immediate post-war years under the Labour governments; but it is also important to assess how far the basis for the development of post-war economic policy had already been laid, in wartime, as a consensus in the reconstruction discussions of 1943-1945. Remarkably, a popular reconstruction movement was already gathering momentum when the coalition government came to power;⁽¹⁾ and the coalition started serious planning for post-war reconstruction even before the peak of war mobilisation in 1943. Although the War Cabinet under Churchill was reluctant to be distracted from the concerns of the war, it had to take some further action once it had agreed to publish the report on Social insurance and allied services in December 1942.⁽²⁾ Thus, in early 1943 the Cabinet set up a Reconstruction Priorities Committee, composed of senior ministers,⁽³⁾ to put together and assess all the reconstruction schemes.⁽⁴⁾ As some view of the future of economic policy was central to this task, the Reconstruction Priorities committee appointed an official Committee on Post-war Employment with terms of reference drawn up by the Economic Section of the Cabinet Office.⁽⁵⁾ The committee presented its report in January 1944 and this represented, according to Keynes, "a revolution in official opinion".⁽⁶⁾ After further detailed ministerial and official discussions, the white paper on Employment Policy was published in May 1944.

Much of the white paper, following principles about reconstruction planning laid down by the Cabinet in October 1943, dealt with the transitional period rather than the long-term future of economic policy.⁽⁷⁾ Churchill wanted to confine reconstruction planning to problems of the transition as far as possible.⁽⁸⁾ He argued against fostering any political debate not closely

connected with the war, fearing that it would threaten the stability of the coalition government and the morale of troops and workers in the period leading up to the invasion of Europe.⁽⁹⁾ But pressures to settle the long-term future of economic policy were strong. Some transitional problems were bound up with long-term problems, as Morrison pointed out in a Cabinet meeting.⁽¹⁰⁾ Also, Beveridge was following up his work on Social insurance and allied services by preparing an unofficial report on employment policy, which was eventually published as Full employment in a free society in November 1944.⁽¹¹⁾ Beveridge had already embarrassed the government by stirring up public discussion on the politically controversial question of social insurance, and the War Cabinet had found it necessary to damp down discussion of this topic in the armed forces.⁽¹²⁾ Public debate on the issue of how to bring about full employment was much more likely to affect the morale of troops and workers, but given the general level of interest in the idea of full employment there was no way that it could be evaded. Bevin wrote later that 'the one question' put to himself and Churchill by soldiers, when they went to Portsmouth just before D-Day, was: "Ernie, when we have done this job for you are we going back on the dole?". "No you are not", Bevin replied.⁽¹³⁾ The publication of Employment policy a few days before must have been a boon in these circumstances, but was it the product of a strong consensus which the Attlee governments later merely had to consolidate?

I

The Cabinet made employment policy a major priority of reconstruction planning at the beginning of 1943,⁽¹⁴⁾ but to form a plausible policy entailed the exploration of political differences within the coalition. Conflicts were difficult to contain, because employment policy

could not easily be separated from much broader issues of economic policy, a point which was made explicit in the report of the Committee on Post-war Employment: "...full employment, while being a major objective...will have to be pursued concurrently with other aims such as national security, the preservation of personal liberty and initiative, the achievement of a rising output and standard of living, the progressive development of education, housing and other social services, the avoidance of inflation, and the encouragement of international co-operation." (15) In February 1944, Churchill formally minuted that he regarded the provision of full employment "as our principal aim in the years after the war", (16) but given the formidable list of other objectives, and the possibilities for conflict among them, there was still plenty of room for technical and ideological argument as the reconstruction discussion proceeded.

The restoration of Britain's position in the international economy was arguably the most important and difficult problem of post-war reconstruction, in that a large part of the resources available for pursuing other objectives depended on developments beyond the direct control of any British government. As the report of the Committee on Post-war Employment put it: 'we cannot predict the exact lie of the land when the earthquake has not yet subsided'. (17) It was well known, however, that the foundations of Britain's international position had cracked. During the war exports had fallen to 1/3 of the prewar volume; much overseas investment had been liquidated; there had been adverse changes in the terms of trade; a huge sterling debt had built up. On top of this it was estimated that a full employment economy would require a higher level of imports than before the war. Moreover, it was recognised that it would be difficult to stabilise employment in Britain if other countries, especially the United States, did not adopt a

similar employment policy. This was crucial because inter-war unemployment had been in large part due to falls in export demand. The view of most economists, reflected in the analyses of the Economic Section, was that the main part of the solution would be the recreation of a multilateral trading system, with new international institutions to guarantee its stability.⁽¹⁸⁾ This aim was basic to the report of the Committee on Post-war Employment and Employment Policy; however, it required the co-operation of the United States, and the influence of liberal trade philosophy in US policy-making circles was an unknown quantity. There was pressure in the US for the British Empire to be opened up to US exporters, and the Cabinet expected the US government to want fully convertible sterling and an end to Imperial Preference,⁽¹⁹⁾ though it was not as certain that the US would repeal its own tariffs. A further problem for Britain was that any return to a liberal international economy would have to be preceded by a transitional period in which essential imports would be maintained, it was hoped, by a continuation of Lend-Lease or US financial aid on a large scale.

Uncertainty about the intentions of US policy-makers strengthened the forces in Britain that looked on import regulation or 'planned trade' (i.e. in practice, bilateral trade agreements) as a complement to internal policies of full employment. For example, T. Balogh advanced the sceptical argument that while separate nation states existed there would be little chance, within a liberal multilateral trading system, of concerting economic policies to maintain full employment.⁽²⁰⁾ Though more sanguine about the prospects Keynes certainly recognised the necessity of a siege economy in the event that the US would not play the multilateralist game; however, he regarded this as a very disagreeable alternative.⁽²¹⁾ In the War Cabinet's discussions, in 1943-4, on the future of commercial

policy (22) and 'Overseas resources and liabilities' (23) the multilateralists were opposed by two groups: those (such as Beaverbrook) who wanted to base economic strategy on the Empire, and those (for example Cripps) who wanted to retain the option of bilateral trade agreements as part of economic planning. One group saw multilateralism as a threat to the Empire; the other saw it as a threat to a future socialist economic policy. The multilateralists carried the day, with the proviso that countries should be able to restrict imports in the event of an adverse balance of payments, (24) but their aims could only be realised through the successful conclusion of international talks and an effective performance by exporters after the war. The close connection made between the future of external economic policy and domestic reconstruction in these discussions is shown by the fact that when the Cabinet discussed post-war financial commitments and social insurance in July 1944, (25) some ministers argued that the post-war situation should be clearer before the government committed itself, and in particular that exports would have to be satisfactory to support the scheme. Although there was a counter-argument that social security would make a positive contribution to industrial efficiency, it was decided to postpone the publication of a social insurance scheme.

So, increasing exports and restoring a stable and expanding liberal international economy became two major aims of the coalition government. A careful reading of the Foreword of Employment policy shows that full employment was seen as dependent on the achievement of these aims. Thus, if the government could create, 'through collaboration between the nations, conditions of international trade which will make it possible for all countries to pursue policies of full employment to their mutual advantage', and if 'by these means the necessary expansion of our external trade can be assured', then,

the government believed, 'widespread unemployment can be prevented by a policy for maintaining total internal expenditure'. However, all that could be said about collaboration between the nations was that talks with other countries were proceeding. This uncertainty provided fertile ground for those who argued that some other basis would have to be found for external economic policy if reconstruction aims were to be achieved, and also for those who argued the opposite: that domestic aims should not be pitched too high. On both counts, the extent of the wartime consensus must be qualified; and the polarisation of opinion that occurred when these choices were faced in practice by the Attlee governments shows that it is wrong to say that the wartime consensus provided an adequate basis for later 'consolidation'.

The central employment policy idea in the report of the Committee on Post-war Employment and the white paper was the maintenance of total internal demand. However, in the wartime discussions a strong emphasis was placed on the need to remove structural rigidities as a condition for the success of this policy. A change in the structure of demand without sufficient mobility of resources between industries or areas might result in "continued unemployment in one part of the system, and a tendency to rising prices in another".⁽²⁶⁾ The problem was to find the right balance between policies of moving workers to jobs and moving jobs to workers.⁽²⁷⁾ During the war much stress had been laid on the latter policy, but the report warned ministers "not to hold out large and unjustified hopes regarding the amount of employment likely to be afforded in any particular area by new establishments or industries".⁽²⁸⁾ Nevertheless, the committee recommended special measures to deal with structural change in the transition, especially in former depressed areas, where the 'grave possibility' of a re-emergence of structural unemployment existed.⁽²⁹⁾ Moreover, the policy adopted in the transition would

'largely determine the extent to which the Development Areas will remain a serious problem in subsequent years'.⁽³⁰⁾ Ministers were told that the government's control over scarce resources would allow it to steer industry towards the former depressed areas.⁽³¹⁾ (It can be noted here that Hugh Dalton, as President of the Board of Trade, was responsible for location policy, and he pursued a vigorous policy of directing new factories towards the former depressed areas at the end of the war.)⁽³²⁾ Even so, the Committee on Post-war Employment felt that control of all new factories was 'wholly impracticable'.⁽³³⁾ Neither did it favour restricting firms in congested areas, as the Barlow Report had recommended.⁽³⁴⁾ In the long-term the government was recommended to use financial measures, similar to those of the pre-war Special Areas policy, to induce firms to move to less attractive areas.⁽³⁵⁾ The committee hoped that industrialists might be prepared to consult with future governments about the location of their factories.⁽³⁶⁾ It also recommended a 'really progressive planning policy' as regards infrastructure: i.e. modernisation of public services, improvement of amenities, better services and 'living conditions generally'. This could provide employment in the short-term, and 'In the long run, measures of this kind might well prove the most effective of all in restoring a well-balanced and progressive community'.⁽³⁷⁾

On these structural questions it is difficult to decide whether official opinion was mildly in support of the 'practical socialism' which Dalton was already attempting to implement at the Board of Trade, or whether it was looking backwards to the policies of the National Government. Subsequent ministerial discussions about structural problems displayed similar equivocation. More emphasis was put on the problems of rehabilitating the former depressed areas than on promoting mobility from them, and it was agreed that the wartime regulations that

had enabled the government to take 'work to workers' should be made permanent in some form, but there was disagreement about how to restrict the freedom of industrialists to place new factories where they wanted.(38) Dalton wanted powers of 'positive direction', similar to those exercised during the war, but he was vigorously resisted. Even the requirement that the Board of Trade be notified about the location of new factories called forth the fear that enterprise would be discouraged, though the purpose was simply to gather information about changes in the balance of industry. In this atmosphere it was not possible for Dalton to get the powers he wanted to prevent firms from locating in congested areas.(39) Labour ministers generally wanted the government to prepare for a positive role in industrial location and environmental planning. Bevin's view was that private enterprise should be given the chance to prove that it could work in harmony with post-war economic policy aims but, 'whatever steps became necessary should be taken to prevent unemployment'.(40) It could be argued that this followed from the general principles of the policy to which the coalition was committed, and the Labour ministers raised the question, for example, whether the compromise policy on distribution of industry which was eventually agreed by the Cabinet would be sufficient to carry out the undertakings given in Employment Policy.(41) On environmental policy, the Cabinet accepted that progress on planning legislation was necessary to implement a policy of 'positive national planning', for the reasons given by the Committee on Post-war Employment, quoted above.(42) As in the case of industrial location, there was a need for swift action;(43) for example, the housing programme might be delayed if local authorities did not have new powers.(44) But, once again, the issue became stalled in the reconstruction discussions. At one stage Bevin stated that he wanted nationalisation of

land, a policy of Labour Party conferences which went against the 'realistic' line adopted by his colleagues.⁽⁴⁵⁾ According to Michael Foot, 'The question of the ownership of land was the real rock on which the Coalition was broken'.⁽⁴⁶⁾ This may be an exaggeration, but the issue was clearly controversial. Both on distribution of industry and environmental planning measures, therefore, the extent of coalition consensus is open to question.

There was yet a further condition set for the successful operation of employment policy by maintaining internal demand: increasing industrial efficiency. This was not in the original remit of the Committee on Post-war Employment, but the Treasury insisted on its inclusion.⁽⁴⁷⁾ Subsequently, the committee argued that industrial efficiency was crucial to the new economic policy for several reasons. First, with liberal international trade full employment could be maintained without devaluation and lowered living standards only if exports were made competitive through increasing efficiency. Second, if wages rose with full employment, as seemed likely, then efficiency would have to keep up if an inflationary wage-price spiral was to be avoided. Productivity was therefore such an important issue that the committee's report stated: 'Full employment and industrial efficiency are...the two parts of a programme designed to secure the greatest volume of goods and services from the country's resources'.⁽⁴⁸⁾ The problem was to improve the efficiency of industry 'as a whole'.⁽⁴⁹⁾ However, apart from proposals to provide tax relief or subsidies it was difficult to generalise. Instead, the committee recommended that particular industries should be studied: new processes in some industries had made their structure out-of-date; some industries required concentration to reduce surplus capacity. The committee thought that re-structuring should be achieved through competition as far as

possible, but past experience showed that this could lead to prolonged malaise. Therefore, re-organisation might require compulsory purchase arrangements: in short, nationalisation.⁽⁵⁰⁾ The report admitted: 'There are political and practical objections to such a course, but without such ultimate powers especially in the early post-war years, desirable plans of re-organisation may be frustrated.'⁽⁵¹⁾

Lionel Robbins, the Economic Section's representative on the committee, thought that the report's 'efficiency' recommendations were restrictionist. Most of the proposals just outlined were, indeed, very similar to the rationalisation policy of the National Government of the 1930's, which had become discredited because it tended to increase the degree of monopoly without necessarily improving industrial efficiency. Robbins felt, more than many of his colleagues, that monopoly was a malign influence on economic development, and argued in a dissenting note attached to the committee's report for an anti-monopoly policy based on the principle that monopolistic organisation should be allowed only where it was demonstrably in the public interest.⁽⁵²⁾ But where there was a technical case for monopoly, Robbins also made clear his own preference for public ownership.⁽⁵³⁾ Of course, the Labour Party also favoured nationalisation as a means to achieve greater efficiency in 'basic' industries, and this was frequently linked, in Labour writings, to economic planning and full employment. To Labour ministers such as Morrison, nationalisation was strongly justified by the argument of efficiency: industries could be restructured and technical change introduced without the negative effects of monopoly.⁽⁵⁴⁾ Furthermore, it was also believed in the Economic Section that public monopolies could be made to behave differently from private monopolies.⁽⁵⁵⁾ The movement towards public ownership was, then, not confined to the Labour Party but it was firmly resisted by Conservative

ministers during reconstruction planning. In 1944 Lyttleton, the Minister of Production, complained to Woolton, the Minister of Reconstruction, that the Reconstruction Committee was tackling subjects outside the scope of Churchill's guidelines for reconstruction planning, laid down in 1943, instancing a discussion on bringing the electricity supply industry into public ownership. Woolton, not yet a member of the Conservative Party, replied that in some cases decisions could not be postponed until after the war.⁽⁵⁶⁾ Later, Morrison tried to argue that the issue of electricity nationalisation 'need not be the subject of party politics'.⁽⁵⁷⁾ However, with the exception of Cable and Wireless, which was taken over for strategic reasons, no firm proposals for the nationalisation of any industry emerged from reconstruction planning. Attlee unsuccessfully proposed the following passage for inclusion in the white paper: "... in the post-war period this country will inevitably depend upon a mixed economy, neither wholly subject to State regulation nor wholly ruled by private enterprise, and the extent to which either one of these principles gains or loses ground to the other will depend on the will of the post-war electorate expressed at the polls".⁽⁵⁸⁾ Although Attlee was unsuccessful in getting an explicit mention of the mixed economy, it was agreed that statements in the draft implying that there would be no changes in the future composition of ownership of the means of production should be deleted.⁽⁵⁹⁾ Nevertheless, as Addison observes, "The coalition partners were able to work together on the finance of post-war industry, and to some extent on its control, but the sticking point was always reached when the question of nationalisation was raised".⁽⁶⁰⁾

One prominent proposal on industrial efficiency of the Committee on Post-war Employment was that the supervision of military contracts could be used to investigate whether there were any special reasons why efficiency in

the former depressed areas was backward. This possibility arose because it had been agreed that a larger volume of military orders than in inter-war years would continue for at least 10 years after the war. The departments concerned were against using military contracts in this way, but the committee thought it 'fundamental' to the future of development areas. This 'solid block' of industrial orders would affect the basic industries, would continue for a long time, and would call for the use of the highest of industrial skills. The committee called this a policy of temporary 'preference and technical nursing'.⁽⁶¹⁾ As shown above in the case of distribution of industry policy, the committee was generally against the use of government departments to supervise or control industry in the future; but to have left matters there would have meant that little in the way of government action could be recommended on the need for industrial efficiency, a ticklish problem with the political tide flowing in the direction of greater state intervention. Military production was one area where state supervision was traditionally acceptable, on the grounds of public expenditure control if for no other reason. The theme of military production was also taken up, in a different way, by Labour ministers. Cripps, as Minister of Aircraft Production, was responsible for overseeing a large slice of war production, and he proposed that the state should continue to operate a number of factories in competition with private enterprise. He justified this by arguing that private enterprise had been shown to be lacking in the past, for example in the build-up of production for rearmament in the 1930's. But this idea was opposed on the grounds that it would be wrong to have government factories competing with private factories, and the same objection was raised to the idea that the government should operate its own factories in Development Areas as part of regional policy.⁽⁶²⁾

In the white paper the government avoided all these areas of controversy. It indicated that a policy of tax relief had already been announced, and commented other schemes to improve industrial efficiency were 'under examination'.⁽⁶³⁾ Problems of individual industries were mentioned but not specific remedies; rather, it was assumed that the general expansionist policy would 'benefit all alike', by 'sustaining the demand for goods and services of all kinds'.⁽⁶⁴⁾ This vague approach to the problem of how to increase industrial efficiency is another indication of the lack of agreement within the coalition, because the reason that it could not be tackled was that there was no consensus on how to deal with questions of public ownership and the mixed economy.

The Committee on Post-war Employment recognised that when employment was high, wages were likely to rise; at worst there could be a wage-price spiral with no extra output or employment. At the start of a recession this would pose a dilemma: whether to promote inflationary increases in expenditure to maintain employment, or to control expenditure at the possible cost of reducing employment. This problem would clearly be exacerbated if there was no means of promoting a rise in industrial efficiency. Also there would be external complications if inflation in one country was higher than in another.⁽⁶⁵⁾ Wages and prices were, in the both the report of the Committee on Post-war Employment and the white paper, regarded as very important and inextricably connected. The committee recommended, however, that collective bargaining should not be replaced by state fixing of wages, at least until other methods had proved unworkable; it saw some merit in the state making a limit to wage rises within which bargaining could take place, and outside which there would be a central review, but was hopeful that no drastic changes would be needed.⁽⁶⁶⁾ By the time the white paper was being drafted, however, the biggest strikes of the war were under way, in

engineering. This, in wartime, was a salutary experience; subsequently there were fewer illusions about the prospects of wage stability under full employment;(67) indeed, there were growing fears about what might happen when wartime arbitration machinery for industrial disputes disappeared.(68) Nevertheless, ministers never seriously questioned the principle that free collective bargaining should continue to be the basis for determining the price of labour.(69) This was one area where there was a firm consensus.

The basis of wartime wage stabilisation was the policy of stabilising prices, in which the main element was food subsidies. It was agreed that the wartime policy would continue in the transitional period,(70) but difficulties were seen with insulating the internal price level by means of subsidies in the longer-term: exports could become undervalued; there could be problems with meeting internal demand with artificially low prices. However, in the transitional period prices should be allowed to rise slowly, with subsidies preventing any sharp rises. The continuing importance of price stability was underlined by Sir Wilfrid Eady in a letter to Sir Richard Hopkins dated April 24 1944: "The present wave of strikes is an indication of the difficult temper of labour. They are not Trotsky strikes,(71) but strikes for more money", and he predicted that with the reduction of overtime after the war, wage pressures might grow. He therefore saw the continuation of the wartime price stabilisation policy as a necessity in the short term, as well as "An understanding with Mr Bevin - and possibly with the TUC".(72) This policy was not controversial among ministers, except insofar as it was entangled with the general question of the future of controls, which is dealt with in detail below. But it did become controversial later, in 1947, when policy-makers were faced with an unenviable choice of problems: the possibility of economic, social and political tensions if

prices were allowed to rise, or the possibility of subsidies getting out of control with rising import prices.

On price stabilisation in the longer-term the white paper stated that the government was prepared to do what it could, but made no specific commitments;⁽⁷³⁾ rather, it would be the 'duty of both sides of industry' to prevent rises in prices by considering them 'together'.⁽⁷⁴⁾ In essence the government, through the white paper, asked trade unions and employers to co-operate in restraining those practices that had been discovered to maximise sectional money incomes (whether wages or profits), in the interest of increasing overall output and employment. There was also the implication that organisations of workers and employers should become stronger and more centralised. In this respect, the policy depended on the development of a greater potential to exercise monopoly power in order to prevent its actual use - a view which seems extraordinarily naive in retrospect, though it followed quite naturally from prewar optimism about industrial co-operation in economic planning, and from wartime tripartite collaboration.

Nevertheless, the Committee on Post-war Employment had also recognised that monopolies could work against both employment and efficiency. It pointed out that the war itself had increased the degree of industrial organisation, and that there were dangers of abuse in the current situation.⁽⁷⁵⁾ (Indeed, before the end of the war the government had problems with a price ring in the aluminium industry, affecting the costs of its emergency housing programme).⁽⁷⁶⁾ The committee believed that wartime controls had minimised such tendencies, but there were conflicting departmental views on what should follow controls.⁽⁷⁷⁾ Some wanted to outlaw monopolies that could be proved to be against the public interest; others wanted a less permissive policy to outlaw all monopolies except those that could be proved to be in the public

interest. There was also a view that nothing should be done to jeopardise co-operation between government and industry, even though this tended to reinforce industrial organisation from which restrictive practices could develop. The committee made no specific recommendations, leaving it up to ministers to decide between the diverse views, while stressing that a decision was urgently needed.⁽⁷⁸⁾ In this case, the discussion in the Committee on Post-war Employment reflected strong ministerial differences through various departmental views. For example, in ministerial discussions Dalton wanted a simple and direct anti-monopoly policy, ⁽⁷⁹⁾ while Cripps took the view that restrictions would be 'essential to any planned economy'.⁽⁸⁰⁾ Others thought that industrial organisation had positive functions as well as harmful effects. Outside interests, when consulted, generally preferred 'self-government', or voluntary restraint, to the imposition of legislation.⁽⁸¹⁾ In the light of these differences, it is not surprising that ministers agreed that the white paper should have only a brief and general reference to monopoly.⁽⁸²⁾ All that was promised was that the government would seek information and 'take appropriate action' to check restrictive practices where they worked 'to the detriment of the country as a whole'.⁽⁸³⁾ Domestic and international cartels, were studied by Hugh Gaitskell and G.C. Allen at the Board of Trade ⁽⁸⁴⁾, but the form of words in the white paper was a disappointing outcome for those who thought that restrictive practices were a very important issue. When the reform of restrictive practices was discussed again there was little support for any precisely defined law. Draft heads for a bill were discussed, but inconclusively.⁽⁸⁵⁾ Once more, there were limitations to the degree of consensus achieved, though in this case the differences between Labour ministers were probably as great as those between the different parties in the coalition.

Having examined the discussion of various conditions for employment policy, it is now necessary to appraise how the central problem of maintaining internal demand was dealt with in the reconstruction discussions. The Committee on Post-war Employment divided total monetary demand into five familiar categories:(86)

- (1) Private domestic investment;
- (2) Public domestic investment;
- (3) Personal consumption expenditure;
- (4) Public current expenditure;
- (5) The foreign balance.

Each category was scrutinised to see how much it was likely to vary, and how it could be controlled. A general reservation was that the government's power to influence aggregate demand was uneven: the parts of the economy where depression was most likely to originate were those most difficult for the government to control.(87) Of crucial importance, a report by the Central Statistical Office showed that about one-half of pre-war fluctuations in total expenditure were accounted for by changes in capital expenditure.(88) Within this, private capital expenditure was an item liable to 'spontaneous' fluctuations. When it came to influencing this aspect of capital investment the committee stated: 'The possibilities of direct control by the state of the capital expenditure of the vast mass of private firms are clearly very limited.' Moreover, there could be 'no question of attempting to control compulsorily the timing of the capital expenditure of particular private firms.'(89) Some Labour ministers felt that to accept this would tie the hands of a future government. Cripps, for one, objected to these negative recommendations, envisaging that there would continue to be close contact between departments and industries and that this could

provide a channel of influence. Cripps feared difficulties at the Reconstruction Committee if he pressed this point, but wrote: "we shall never make an omelette without breaking eggs".⁽⁹⁰⁾ Beaverbrook, at the War Cabinet meeting in May 1944 which agreed to publish the white paper, also insisted that proposals to stimulate private capital investment did not go far enough, though he wanted firms to be given financial incentives, as against the corporatist approach favoured by Cripps.⁽⁹¹⁾ The foreign balance was identified as the other item 'most likely to fluctuate spontaneously' and also the most difficult of all to control.⁽⁹²⁾ This posed the problems of influencing structural adjustment and industrial efficiency already mentioned; because, 'an increase in one part of total expenditure can only within limits offset a decrease in another'. In particular a decrease in demand for the output of important export industries would have to be met with an increase in other exports as quickly as possible because an internal reflation would lead to inflation if 'too vigorous'.⁽⁹³⁾

There was no difference between the report of the Committee on Post-war Employment and the white paper on these points. The white paper freely admitted that it was 'highly inconvenient' that the most volatile components of total expenditure also happened to be the most difficult to control.⁽⁹⁴⁾ 'Everything possible' had to be done to limit 'dangerous swings' in private expenditure, but success would possibly be 'particularly difficult to achieve'.⁽⁹⁵⁾ Like the report of the Committee on Post-war Employment, the white paper suggested that large firms might be persuaded voluntarily to plan their capital expenditure to conform with a general stabilisation policy.⁽⁹⁶⁾ Yet the most obvious way of overcoming the inability of the government to control private capital expenditure, namely public ownership of a number of the most capital-intensive industries was, for reasons already discussed, not

mentioned in Employment policy, although it was in the minds of Labour ministers. The white paper only made the oblique suggestion that: 'Forward planning may have to be carried down to the industries which supply the primary needs of public investment'.⁽⁹⁷⁾ The government's policy on the control of private investment was, as Brook observed to Woolton, "nothing more ... than a pious hope that private enterprise will follow the government's lead".⁽⁹⁸⁾

Given that private investment could not be directly controlled, some emphasis was given to the continued use of monetary policy as an investment regulator. The Committee on Post-war Employment thought that in the future a reduction of interest rates might be used to increase investment. An 'extreme theoretical possibility' was that the state itself could undertake a 'much larger part of total investment by lending at nominal rates of interest'.⁽⁹⁹⁾ This corresponded to Keynes's view that there would have to be a 'somewhat comprehensive socialisation of investment' to secure an approximation to full employment.⁽¹⁰⁰⁾ But the committee did not pursue this point in their report, regarding it as too speculative. For the transitional period the government was definite that the rate of interest could not be allowed to determine the volume of investment, because with a vast backlog of capital investment projects there might be a steep rise in interest rates. 'The government are determined to avoid dear money for...urgent reconstruction needs'.⁽¹⁰¹⁾ This implied that for a number of years the government would continue directly to determine the volume and priorities of investment as a whole. Although the coalition would not allow interest rates to influence the volume of investment in the short-term, it did state in the white paper that the possibility of influencing capital expenditure by varying interest rates would be 'kept in view'.⁽¹⁰²⁾ Once again this vague phrasing reflected a

division of opinion, concerning the effectiveness of interest rates as a governor of investment, and the role of interest rates in Britain's external economic relations. However, experience with monetary policy since the end of the gold standard was invoked in the white paper to show that it would be possible to operate a 'monetary policy designed to promote stable employment'.(103)

Private investment could also be influenced by taxation policy. The Committee on Post-war Employment thought that since taxes would probably be high for a number of years, the government could consider reducing them selectively to aid industrial efficiency (this was done after the war with depreciation allowances), but it was 'neither desirable nor practicable' to vary industrial taxes for purpose of employment policy.(104) Tax schemes to promote investment at the start of a depression were mentioned as a possibility in the white paper, but it was also stated that further study and accumulation of experience would be needed, and other methods would have to be looked at.(105)

As against all the problems of influencing private capital expenditure (let alone the foreign balance) the Committee on Post-war Employment had much more hope that public capital expenditure could be controlled in the interests of employment policy, provided that four obstacles could be removed: (106)

(a) the larger part of public investment was undertaken by thousands of local authorities, public utilities and similar bodies;

(b) diverse bodies would have to be prepared to invest 'contra-cyclically', which might often seem against good financial sense from the viewpoint of a particular industry involved;

(c) some public expenditure could not be subject to the 'psychological' reactions of governments to changing economic conditions;

(d) projects required time to set up and implement. This impressive list of obstacles had to be overcome in such a way that the government could alter the volume and structure of public investment promptly. As the white paper stated: 'the crucial moment for intervention is at the first onset of depression'; otherwise greater intervention would be needed, and it might not be so effective.(107) This suggested that the authorities needed to be very alert to the possibilities of future slumps. Good foresight would be needed, and a stock of 'off-the-shelf' projects.(108) The Committee on Post-war Employment argued that variation of public investment was so important that, if necessary, the government would have to consider ways of controlling it more closely. The current system was not adequate because most of the existing forms of control were negative. These were adequate to restrain expenditure, but not to ensure that in a recession new projects would be undertaken. Also, because of the scale of variation that might be required, there might have to be changes in the relations between government and local authorities. But if these difficulties could be overcome the committee concluded that the effect on aggregate demand would be great. (109) Some members of the committee made two qualifications. First, after the transition period there might have to be a switch from capital investment to consumption in the interests of a balanced economy; if deflationary forces then emerged it might be undesirable to increase the level of public investment. Second, the main objective of the building programme, which would form a large part of public investment, was to maintain a steady level of building activity over a long period; the achievement of many of the social and economic aims of reconstruction planning depended on this. Clearly, the use of the building programme as an economic regulator might conflict with this publicly-stated policy.(110)

The nub of the policy was that the timing and volume

of public investment should be carefully planned to offset unavoidable fluctuations in private investment. There was some scepticism about whether increasing public investment could adequately offset falls in private investment. In addition the policy meant subordinating public investment to the moods of business confidence, which might not appeal to the public authorities which had to do careful planning. For example, how could local authorities justify postponing socially useful projects in times of boom? There was also opposition to the idea that government departments should be subject to economic policy in this way. The Admiralty put up a very stiff resistance to the notion, which was not new, that warship-building could be used as an economic regulator.⁽¹¹¹⁾ Its argument, similar to that which was made in other quarters about the building programme, was that there should be a steady level of naval construction, related to military objectives, rather than a 'contra-cyclical' variation.⁽¹¹²⁾

Therefore, whether accelerating or holding back programmes, difficulties could be foreseen. Schemes for planning a 'shelf' of public investment were discussed, including the preparations of plans for different periods ahead, and rough estimates of the employment effects of different kinds of capital investment project.⁽¹¹³⁾ However, many officials were far from convinced by these schemes. Among the doubters was Sir Wilfrid Eady, who was accused by Norman Brook of making 'wrecking amendments' to the draft on this and other issues. Eady objected: "I don't regard it as satisfactory that a State Paper of this importance should contain two major proposals, on the variation of public expenditure and on the variation of insurance contributions, which all the officials concerned believe impractical or at best far less effective for their designed purpose than is claimed for them".⁽¹¹⁴⁾

Despite these doubts and objections, the white paper

echoed the Committee on Post-war Employment in placing the main burden of employment policy on the control of public investment. It was envisaged that the machinery of assembling and co-ordinating the investment plans of public authorities would enable the government to set an annual target for the whole volume of public works. In the light of what has been said about internal doubts about the policy, however, it is significant that the white paper itself listed some of the difficulties involved in using public investment as a stabilising mechanism. This produced a general effect which Keynes, according to Eady, had compared to the holes in a Gruyère cheese, "but without the surrounding cheese".(115) However, the conclusion remained: compared with other methods, public investment could be 'used more directly as an instrument of employment policy'.(116)

Nevertheless, the Committee on Post-war Employment felt that, even with a well-designed policy to control public investment, it was necessary to look also at the control of private consumption. It recommended that this should be done by influencing the level of incomes, and not the consumption of particular goods, in order to preserve freedom of choice in consumption. At the same time it saw 'many political difficulties in a system which links increased personal incomes with a budgetary deficit', and therefore recommended that some kind of 'automatic' regulator should be operated.(117) To this end the committee was particularly attracted to the Economic Section's scheme for varying social insurance contributions in relation to an index of employment: 'We are...impressed by the great psychological value of a scheme of this kind in bringing home to the great mass of the public exactly what a policy of maintaining employment demands - a conscious effort by the whole community not to drift with the ebb and flow of the economic tide as in the past, but to set itself to reduce such fluctuations to a minimum.' This view can be

contrasted with Anderson's use of a similar maritime metaphor in a letter to Ramsay MacDonald in 1931 (see above, p.22). However, very important objections to the scheme for varying social insurance payments were that it would not act quickly enough or powerfully enough as a consumption stabiliser. MacDougall of the Prime Minister's Statistical Section wrote a paper about variations of social insurance contribution variations in 1920-1 concluding that the effects would be 'too slow'. Meade, the scheme's main supporter, replied that it could be speeded up.(118) But the more solid objection concerned the scale of effect. Lord Cherwell, Paymaster-General and Churchill's scientific adviser, wanted to put more stress on variations of taxation. He thought that this was the only instrument with sufficient power which could be used quickly. It had been estimated that national income was subject to fluctuations of about 7% around the mean and Cherwell made a rough calculation showing that all the stabilisation proposals to be included in the white paper would account for less than half this variation. He wrote to Woolton: "... I consider it a great mistake not to make more of variations in taxation, which is by far the strongest weapon at our disposal, and without which it may well not be possible to solve the unemployment problem - or to show that it can be solved."(119)

Although there were powerful theoretical and practical arguments for the variation of taxation, the whole issue was given a minor reference in the white paper.(120) This tentativeness reflected strong differences of opinion about the use of taxation as an economic stabiliser. It was argued by some ministers in the Reconstruction Committee, that such a use of taxes was fraught with 'political dangers' and should not even be mentioned in the white paper.(121) It was feared that parties would vary taxes for electoral advantage, using economic stabilisation as an excuse. This might lead to

an economic danger: 'political' variation of taxation might have a pro-cyclical rather than a stabilising effect. In fact, the idea that the trade cycle would be replaced by a 'policy cycle' was foreseen as a theoretical possibility at this time by Kalecki.(122) Because of doubts about the variation of taxation for general economic policy aims the white paper depended mainly on 'thermostatic' variation of social insurance contributions for the stabilisation of consumption. However, in light of the arguments that took place inside the government it can be concluded that the idea of a social insurance thermostat was included as an heuristic device rather than as a practical proposal.

The Committee on Post-war Employment was specifically asked to look at the budgetary implications of employment policy. This boiled down to the question of whether the policy involved dangerous tendencies to increasing public debt. The committee pointed out that this problem only applied to public expenditure which earned no monetary return (e.g. expenditure on school buildings as against, say, houses for rent) and would be a danger only if the debt grew faster than national income. A special problem was foreseen for the transition, when it was anticipated that there would probably be a continuing budget deficit, despite the kind of inflationary pressures which would normally dictate a budget surplus. If deflationary conditions emerged at the end of the transition it might be necessary to continue a deficit, which would lead to confidence problems. Further problems would ensue if stagnation turned out to be chronic, but on this point the committee broke off its speculations. (Keynes commented that this part of the report had 'the air of having been written some years before the rest of the report', because it did not take into account the operation of the multiplier, and consequent effects on government revenue).(123) The white paper cautiously stated that the proposals did not involve deliberate

planning for budget deficits in times of depression, and presumed that the budget would be balanced over a period of several years.(124)

Perhaps the most important conclusion to be drawn from this examination of the discussions about maintaining aggregate demand is the simple one that it was not yet clear how the five main elements of demand could be controlled. Various officials and politicians had their own ideas about what would be effective, but any bold idea tended to generate controversy. Therefore the whole discussion, and the outcome in the white paper, was more tentative than it is sometimes made to appear in retrospect. A good example of the problem is that, during the tortuous efforts to draft the white paper, Cherwell argued that it should include a breakdown of the relative significance of the different instruments in the stabilisation of national income as a whole, but he was forced to withdraw this idea because of opposition from the Chancellor,^{Sir} John Anderson.(125) Judged as an attempt to establish a basis for planning the national income, a result that the Keynesians were hoping for,(126) the discussions on the long-term future of economic policy were inconclusive. The consensus did not extend far beyond an agreed statement of aims; the question of means was left to be resolved by practical experiment in the future, because of technical and ideological disagreements. Experienced politicians probably never doubted that there would be serious disagreements about the long-term policy. There were rumblings of discontent in the political parties, and during 1944 pressure was put on Labour ministers to break with the coalition at the end of the war.(127) What had been agreed, however, was sufficient for Churchill and Bevin, without fear of easy contradiction, to reassure the troops departing for the Normandy landings that they would not return to the dole queues.

III

How much consensus was there on the more pressing problems of the transitional period? The primary brief of the Committee on Post-war Employment was to look at policy for the long-term, but of the transition it stated: '...unless these problems are satisfactorily solved, our long-run position may be permanently affected. Moreover, our judgement of the moment at which it would be appropriate to introduce some of the permanent measures which have been proposed must depend in some degree upon an appreciation of the forces which will be dominant in the period of transition.' (128) The first important feature of the transition would be 'a vast transformation' of the structure of demand. This contained the danger of frictional unemployment, with possible long-term consequences. The second feature would be a high level of money demand. The combination presented a potent inflationary danger: either consumption or investment demand could lead to general inflation. Another major problem would be to ensure that enough resources were put into exports, rather than being sucked into domestic capital investment or consumption by the high pressure of demand.(129) In demobilisation plans the Cabinet agreed to make exports the top priority, (though it was agreed that it would be unwise to make public mention of this).(130) The main production priorities listed after military requirements were exports, capital re-equipment, consumer necessities, and house-building - which added up to a formidable total.

Realising this, the committee pointed out that structural maladjustments could be created or exacerbated during the transition, leading to difficulties when recessionary forces emerged. Ministers were therefore cautioned to place the least possible 'distorting' forces on the economy during the transition. To put the problem in perspective, when the Cabinet discussed manpower in

the first year after the defeat of Germany, in July 1944, it was estimated that there would be a 1.75 million person shortfall for meeting the government's main objectives.(131) The committee particularly urged ministers to avoid over-expansion of 'certain investment industries', in a way that would require consumption to be severely limited.(132) This was a reference to the building programme, the size of the projected total labour force for which had been publicly announced during 1943(133) despite fierce tussles in the Reconstruction Priorities Committee and the Cabinet.(134) The building programme continued to cause misgivings among officials and politicians. The question was taken up in the Reconstruction Committee again during 1944. Cherwell argued that if the target for the total size of the building labour force was not scaled down from 1.25 to 1.00 million (this was the actual figure for 1938; Bevin had originally proposed 1.4 million), then there would be unemployment in the industry after a few years.(135) But departments objected that this would mean going back on the promise in the white paper.(136) In the Reconstruction Committee discussion it was stated that the figures had been 'carefully calculated', and the total was reaffirmed.(137) Events after the war showed that the figures had not been carefully calculated: no allowance had been made for expanded demand in the building materials industries; there were difficulties in reaching the manpower target; and there were shortages of a number of materials.

Given the character of the transition, the Committee on Post-war Employment pointed out that operations on total demand could not be used to overcome any unemployment that might arise: 'in this period, therefore, first stress will need to be placed on removal of production bottlenecks in the form of shortages of key workers, lack of factory space or raw materials; and speeding up of any necessary retooling'.(138) In other

words, a policy of increasing supplies to match an existing high level of demand. The committee also recommended action to direct industry into any area that threatened to become depressed, as well as promoting occupational and geographical mobility.

On the problems of the transition generally the committee concluded: 'The position...is clearly one which calls for control', although it could be predicted that there would be 'considerable opposition to the retention of controls in any form'; also, there would be difficulties in holding prices and in setting criteria for allocations of resources 'once the single test of war is no longer applicable'. Furthermore, controls could be overdone: they might damage 'spontaneous' forces of expansion; in short, private business. Nevertheless, the committee was firm in its assertion that there was no alternative: controls could be loosened if too tight, but would be difficult to re-establish once dismantled.(139)

Towards the end of the war the earlier assumptions about the need for controls were relaxed, because of changing expectations about what conditions would be like in the transition. At the same time there was increasing ideological conflict over the future of controls. At the beginning of 1944 even John Jewkes, who was later so sweeping in his opposition to controls, wrote in his draft for the white paper: "the necessary guidance and control will be maintained as long as it is necessary".(140) But how long would this be? According to the white paper, 'The plans for ... [the] transition period must be extremely flexible; for no-one can yet know when the war with Germany will come to an end or how long thereafter Japanese resistance will continue'.(141) This was the typical tenor of wartime planning, by nature short-term and flexible. Planning was not made easier by the knowledge that demobilisation and reconversion required the machinery of economic policy to cope with bigger changes in the pattern of employment and output

than any that had occurred during war mobilisation, a point often made by those involved in transitional planning. Moreover, the earlier the end to the war, the quicker 'the vast transformation' of the economy would have to take place, and the more difficult and unpredictable the change would be. (142) An informal official Committee on Controls was set up to study the problems that could arise. The development of its work illustrates the way that official thinking was changing. In 1943, when reconstruction planning began in earnest, it was assumed that Stage II (i.e. the period from the defeat of Germany to the defeat of Japan) would start in 1944 and last for two years. Under this assumption the war would be going on at a much reduced level during most of the transition. The picture began to change when the Committee on Controls was asked by Woolton, at the end of 1944, to estimate the effect on existing plans of 'various hypotheses', including ones that Stage II would last six months or 18 months instead of 2 years.(143) In fact, the committee was overtaken by events and still revising its main report when the war ended in August 1945.(144)

The most important point which the committee had to study was whether there would be continuing labour scarcity or heavy unemployment in the transition. If there was unemployment - and there were early fears that there might be localised unemployment before the end of the war with Japan(145)) - it was predicted that pressure to remove all controls would grow. The committee had trouble with getting hold of statistics, so only rough guesses could be made in most cases, but it concluded that there would not be any major problem of unemployment provided that raw materials and stocks were sufficient.(146) While it had been assumed that Stage II would last two years, it had been expected that the main purpose of economic controls in the very early part of the transition would be to stop a premature resurgence of

civilian production.(147) (In practice the opposite difficulty was more significant: in switching production to high priority goods for civil consumption there were difficulties in getting workers to move from high-wage munitions work to low-wage civilian industries, such as textiles, food-processing and building materials.(148) This resulted from the fact that wartime manpower planning had been dependent on wage incentives more than on labour controls.) When it became clear that there would be an early end to the war, however, some economic advisers - and the official Committee on Controls - drew the conclusion that controls could be relaxed much more quickly, on the grounds that there would be less need to keep a balance between munitions production and civilian production. In a note by Bridges on a draft report of the Committee on Controls, circulated to ministers in September 1944, there was a reference to the assumption that Stage II would last 18 months instead of 2 years: "the most probable result of the new assumption is that the process of relaxing control may begin earlier in the transition and proceed more rapidly".(149)

Later, this point was taken to an extreme in the office of the Minister of Reconstruction, by Woolton's economic adviser John Jewkes. In a paper entitled 'Economic policy in the transition', dated 11/10/44, he argued that if the war was shorter there would be a danger of 'heavy frictional unemployment', and a need to 'get people into jobs at all costs'. To this end controls should be relaxed 'courageously' and quickly; Jewkes thought that most raw materials could be released from control within six months. Controls might impede the development of the economy when there was no longer a reason to have any power over what businessmen decided to produce. Instead, "all post-war plans should be based upon the assumption that we shall return to the conditions and organisation existing before the war", unless the government had decided otherwise on any

specific point. Jewkes recognised that there were risks in the policy that he recommended, but thought that frictional unemployment with controls was a more disagreeable alternative than the risk of confusion and inflation without controls: "so long as economic resources are available, the right way to prevent inflation is to expand production". It is this last point that reveals the fatal flaw in Jewkes' argument; as it turned out, economic resources were not available, and controls were therefore necessary. Jewkes recognised that his views were unpopular, but suggested to Brook that "opinions of ministers on this subject might change quickly in the next month or two".⁽¹⁵⁰⁾ Not long after this Brook 'agreed to release' Jewkes, who returned to academic life.⁽¹⁵¹⁾

Leaving aside such ideologically motivated arguments for relaxing controls, a more practical question concerned not whether it would be desirable to retain a control, but whether it would be possible to resist pressure for relaxation. A related difficulty was that if one type of control was abandoned, then pressure might grow to get rid of others.⁽¹⁵²⁾ Labour controls were seen as the most likely source of problems in this respect. The possibility that labour controls would have to be abandoned was seen by some as a crucial limitation on the future use of controls, because the manpower budget had been central to economic planning during the war. In the transition the government had to try to keep a balance between domestic consumption, capital investment and export output, and this was the sort of overall balance that had been achieved by manpower budgeting during the war.⁽¹⁵³⁾ Some went as far as to say that a manpower budget, and hence any kind of overall economic planning, was impossible without labour controls. Other disagreed: Ely Devons, for example, wrote a paper in which he expressed scepticism about the supposed importance of labour controls in the war effort, while the official

Committee on Controls concluded that materials controls would be most important after the war.(154) However, the operation of materials controls would not be easy. The 'unprogrammed' diversity and complexity of the peacetime economy might make the administrative allocation of materials very complicated.(155) Furthermore, as the task of administering controls became more complicated, it was expected that most of the temporary civil servants running the controls would want to return to peacetime jobs immediately the war ended.(156) Moreover, problems of equity would arise from the continued use of the regional organisations, which were partly staffed by leading local businessmen.(157)

But perhaps the biggest difficulty of all in assessing the potential role of controls in the transition was that the officials concerned were unable to say exactly how controls could be used to attain the government's most important objectives; in particular this applied to the building programme and the export drive. For many reasons, the building programme had a very high priority in reconstruction plans; for example, Woolton thought that housing was the most important reconstruction problem, and Churchill ordered that the housing programme should be carried out on the lines of a military operation.(158) However, the building industry was a difficult area for the use of economic controls; relevant wartime experience was lacking because the industry had been severely contracted during the war as building had been restricted to military projects and little else. An official Committee on the Control of Building was set up in late 1943 to examine the problems. At first there was some argument about whether controls would be necessary at all, since it was suggested that 30,000-odd building firms might compete among themselves and keep costs down,(159) but in the end it was agreed that controls would be needed to prevent building resources 'leaking' into repairs, and to enforce an allocation between house

and factory-building in line with the government's priorities. There was, also, a need to balance the regional distribution of building. Therefore, it was concluded that control of building should be based on a system of building licences. Nevertheless, it was recognised at the same time that there would be great difficulties in operating such a system.(160) The committee might have been much more sceptical if its terms of reference had been wider and it had dealt with the gamut of problems facing the building programme, including how to overcome prospective shortages of raw materials and labour.

The problems of the export industries were also particularly difficult. As stated in Employment policy, it would be up to the industries themselves to make the most of their opportunities to recover markets and find fresh outlets for their products. But it had also been agreed that export industries' claims for resources freed from war purposes would have a high priority.(161) And as with the building programme, the export drive was sometimes compared to a military campaign, implying that the government would take any necessary measures to achieve it.(162) In return, the government expected firms to co-operate by earmarking a high proportion of their output for exports, rather than taking the easy route of selling on the home market where demand would be high.(163) But there were already doubts about whether this policy would be adequate. Meade wrote to Brook in August 1944, calling for a general re-appraisal, because no-one had said how controls could be used to stimulate exports. Meade recommended a policy of devaluation to encourage exports, purchase tax to discourage home consumption and reduction of Excess Profits Tax to energise firms. He was critical that the informal Committee on Controls had looked at every type of control except financial ones, whereas he anticipated that physical controls would weaken, and that the Treasury was

"coming right back into the centre of things". The proposal to use Purchase Tax as a weapon in export policy brought forth the argument from the Customs and Excise that this would not raise exports. But, as Jewkes pointed out in a paper on this issue, there was the 'rather terrifying fact' that although the government had announced that exports would take priority over the domestic market, 'It is generally admitted that it would be extremely difficult through the use of physical controls to divert effort into the export trade'. Jewkes asked the pertinent question: if the use of Purchase Tax was rejected, what was the alternative?(164)

With this degree of doubt and confusion, it is not surprising that it proved very difficult to produce a public statement to elaborate the points in Employment policy on the future of controls. The first intention was to publish a white paper economic controls, but the project was scrapped when it became clear that, as Arnold Plant wrote, 'it is the use of the machinery we are defending in the White Paper, not the manner in which the machinery is used.' (165) If so, the issue hardly required another white paper, since the principle of retaining controls had already been established. Also, the difficulties of specifying how controls would be used were compounded by ideological questions which became prominent as the prospect of a 'return to normality' came nearer. When it came to drafting the legislation for the transitional powers, and making a public statement about the future of controls, there were disagreements in the Cabinet about various phrases. Some were said to imply indefinite retention of controls; others were said to imply that there would be a swift return to pre-war laissez-faire.(166) In the end, Churchill made a short statement to Parliament on November 16th 1944, in which he simply said that the use of controls would be dealt with 'in a severely practical manner ... Theoretical, ideological or partisan tendencies either way should be

excluded, and the governing consideration in every case should be the public interest'.

Such woolly phrases barely concealed the mutual suspicions within the coalition. As early as March 1944, after Morrison had suggested in a speech that reconstruction Bills might be passed in a very general form and be elaborated by delegated legislation, Churchill warned about a possible break-up of the coalition.⁽¹⁶⁷⁾ In August, Bevin had complained that there was too much emphasis on relaxation in the report of the Committee on Controls.⁽¹⁶⁸⁾ This was not surprising, as Woolton had prompted the committee to produce a 'goodly batch' of relaxations.⁽¹⁶⁹⁾ After Churchill's statement, in March 1945, there was some hard talking in the Cabinet when Bevin inveighed against a press campaign decrying controls in general and labour controls in particular. In reply, Lyttelton claimed that 'official Conservative leaders' were not to blame; Woolton said that industrialists agreed with the need for controls; financial circles also agreed, according to Anderson; Churchill simply blamed the press for what he admitted was a 'poisonous political atmosphere.'⁽¹⁷⁰⁾ This exchange took place shortly before the break-up of the coalition. After the departure of the Labour ministers, the uncertainty did not lessen. In a letter to A.J. Johnston, secretary to the Committee on Controls, written during the brief tenure of the Caretaker government, D.N. Chester suggested that the atmosphere in Whitehall was 'somewhat feverish, not quite certain whether it is the bogey of inflation or the bogey of general unemployment which must be crusaded against'; perhaps, thought Chester, civil servants were just reluctant to admit that the economy might work without them. On the work of the committee, Chester suggested that it would probably be a mistake to put in detailed comments on the different controls, "especially in view of the changing political situation".⁽¹⁷¹⁾

From an examination of public statements of the coalition it might seem that there was a solid commitment to the use of controls to achieve transitional objectives. When the internal discussions are studied, however, the extent of this commitment is much less certain. The internal doubts and confusions had very important consequences for the incoming Labour government, which sought to achieve the agreed targets in the building programme and other spheres, which was bound to intensify inflationary pressure. Even before the end of the war there were many who had arrived at a view similar to that expressed by a member of the Economic Section, R.C. Tress, when he pointed out that it was not difficult to foresee that inflationary pressure was likely 'to persist beyond the transitional period into the early years that will follow'. Therefore, aggregate demand would have to be dampened down by whatever means were available. Consequently, Tress argued,

'It is folly to go ahead encouraging heavy programmes of capital development, private or public, after the war (including housing once the strongest claims have ceased to be pressing), when a drying up in the flow of investment opportunities relative to the supply of saving will later be the principal threat to the maintenance of a high and stable level of employment. Moreover, the people of this country will have just fought and won a seven-years' war, and they may rightly claim some immediate comfort rather than be called upon to give further hostages to the future'.(172)

In this chapter it has been shown that the 1943-5 discussions on long-term and short-term future of economic policy were inconclusive in many ways, and that the wartime consensus was therefore limited. The disagreements over Employment Policy can be exaggerated, just as the role of consensus has often been inflated in the past. But it is reasonable to conclude that the

reconstruction 'consensus' was more important as a means of maintaining morale than as a basis for enduring political change. It was sufficient to reassure troops and workers that they would not find themselves in dole queues after the war, but there was as yet little agreement about how to reconcile the conflicting objectives of economic policy. Conservative and Labour ministers still viewed the future of economic policy in radically different ways; this fact was concealed by the vague and ambiguous language of the white paper, but becomes evident from an examination of the internal discussions. Moreover, the short-term policy for the transitional period was also controversial. The existence of a movement for 'return to normalcy' can be detected very clearly, and in itself was a symptom of conflicting views, because there was an equally strong feeling at each end of the political spectrum that retaining controls or sweeping them away would set the pace for the development of economic policy in the long-term.

CHAPTER 2 - REFERENCES

- (1) General accounts of the development of the reconstruction movement can be found in:
Addison, P. The road to 1945, 1975;
Calder, A. The people's war, 1971.
- (2) Social insurance and allied services, Cmd. 6404, 1942.
- (3) CAB 65 33 WM(43)8, 14/1/43
The members of the Reconstruction Priorities committee were: Anderson, Bevin, Morrison, Lyttelton, Wood, Jowitt and Cranborne. Bridges and Brook were the secretaries. Woolton was appointed Minister of Reconstruction in November 1943, when a new ministerial Reconstruction committee was set up, the members of which were Woolton, Attlee, Bevin, Morrison, Butler, Anderson, Lyttelton, Cranborne, Jowitt and Crookshank.
- (4) CAB 65 33 WM(43)28, 12/2/43
- (5) CAB 87 12 PR(43)2, 28/1/43
The members of the Committee on Post-war Employment were: Hopkins, optionally Barlow or Eady, Hurst, Overton, Phillips and Robbins. The secretaries were Gorell Barnes and Chester.
- (6) Keynes, J.M. Collected writings, Vol 27, 1980, p.364. However, Keynes seems to have been less impressed by the content of the white paper which developed from the report. See below, p.81.
- (7) CAB 65 36 WM(43)140, 14/10/43
CAB 65 36 WM(43)144, 21/10/43
CAB 65 36 WM(43)147, 27/10/43
- (8) CAB 65 36 WM(43)140, 14/10/43
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- (9) CAB 65 36 WM(43)140, 14/10/43
- (10) CAB 65 36 WM(43)144, 21/10/43
- (11) Beveridge, W. Full employment in a free society, 1944.

- (12) CAB 65 33 WM(43)5, 8/1/43
The Cabinet decided, after Beveridge had an article published in the Army Bureau of Current Affairs magazine, that such a 'politically controversial' topic was not suitable for compulsory current affairs discussions.
- (13) Addison, op.cit. p.242.
- (14) CAB 65 33 WM(43)29, 15/2/43
- (15) Committee on Post-war Employment, report, p.4, para.7
- (16) CAB 124 206 (This file contains a copy of Churchill's minute M61/4, 2/2/44)
- (17) Committee on Post-war Employment, report, p.8, para.26.
- (18) T 230 15 Economic Section discussion papers, 1943.
This file of discussion papers contains a major piece of work by Meade, presenting the case for multilateralism and the case against 'the alternative', i.e. bilateralism, tariffs, etc. In fact, the case against economic planning in international trade.
- (19) CAB 65 34 WM(43)50, 8/4/43
- (20) Balogh, T. in Burchardt, F. (ed). The economics of full employment, 1944, pp.126-80. This collection of essays contains a number of examples of radical Keynesian thought. Keynes himself thought it very forward-looking, though he rejected Balogh's views.
- (21) Keynes, J.M. Collected writings, Vol.24, 1979, p.256, pp.275-6.
- (22) CAB 65 34 WM(43)50, 8/4/43
- (23) CAB 65 43 WM(44)93, 18/7/44
- (24) CAB 65 34 WM(43)50, 8/4/43
- (25) CAB 65 43 WM(44)87, 4/7/44
- (26) Committee on Post-war Employment, report, p.7, para. 20
- (27) Ditto, p.3, para. 1
- (28) Ditto, p.34, para.164

- (29) Ditto, p.39, para.195
- (30) Ditto, p.44, para.218
- (31) Ditto, p.38, para.190
- (32) Dalton, H. The fateful years, autobiography Vol.II, pp.434-53. Jay, D. Change and fortune, pp.109-127
Both these autobiographies show that a high priority was given to this aspect of economic policy at this time.
- (33) Committee on Post-war Employment, report, p.38, para.186
- (34) Report of the royal commission on the distribution of the industrial population, Cmd.6153, 1940.
- (35) Committee on Post-war Employment, report, p.42, para.210
- (36) Ditto, p.39, para.190
- (37) Ditto, p.43, para.212
- (38) CAB 87 5 R(44)11, 28/1/44
CAB 65 44 WM(44)151, 16/11/44
- (39) CAB 65 44 WM(44)168, 13/12/44
- (40) CAB 87 5 R(44)30, 12/4/44
- (41) CAB 65 49 WM(45)15, 7/2/45
- (42) CAB 65 41 WM(44)38, 21/3/44
- (43) CAB 65 34 WM(43)49, 6/4/43
- (44) CAB 65 42 WM(44)68, 24/5/44
- (45) CAB 87 5 R(44)7, 19/1/44
- (46) Addison, op.cit. p.252.
- (47) CAB 124 204 According to notes written by John Jewkes, about the Committee on Post-war Employment's report.
- (48) Committee on Post-war Employment, report, p.6, para.23.
- (49) CAB 87 5 R(43)1, 20/12/43
At its first meeting the reconstruction committee did agree to study the transitional problems of industry 'as a whole', and special sub-committees were set up for the purpose. But the long-term questions were not studied systematically in a

similar way.

- (50) Committee on Post-war Employment, report, p.47, paras.238-40.
- (51) Ditto, p.48, para.241.
- (52) Ditto, p.4, para.4.
- (53) Ditto, p.63, para.12.
- (54) Morrison, H. in Can planning be democratic?, 1944, pp.1-23.
- (55) T 230 16 Economic Section discussion papers, 1944
- (56) CAB 124 566
- (57) CAB 87 10 R(45)14, 9/4/45
- (58) CAB 124 214
- (59) CAB 87 5 R(44)36, 8/5/44
- (60) Addison, op.cit. p.253.
- (61) Committee on Post-war Employment, report, pp.40-1, paras.199-203.
- (62) CAB 87 5 R(43)1, 20/12/43
- (63) Employment policy, para.6.
- (64) Employment policy, para.7.
- (65) Committee on Post-war Employment, report, p.30, para.143.
- (66) Ditto, p.30-1, paras.147-9.
- (67) CAB 124 215A
- (68) CAB 87 6 R(44)58, 6/9/44
- (69) CAB 87 5 R(44)1, 3/1/44
CAB 87 6 R(44)70, 6/11/44
- (70) CAB 124 695
- (71) Bevin claimed that the strikes were the work of Trotskyist agitators. His decision to use the occasion to bring in Regulation 1AA, which could be used to jail or fine political agitators, caused a furore in the Labour Party. In The people's war, 1971, Calder comments: "In a less hectic time these ludicrous tales of Trotskyites would have been laughed to death; and in fact, after a split in the Labour Party had been narrowly averted, regulation 1AA was never used." p.509.

- (72) CAB 124 215A Letter from Sir Wilfrid Eady to Sir Richard Hopkins, 24/4/44.
- (73) Employment Policy, para.53.
- (74) Employment Policy, ibid.
- (75) Committee on Post-war Employment, report, p.53, para.272.
- (76) CAB 87 15 R(I)(45)7, 14/5/45
- (77) CAB 124 204
- (78) Committee on Post-war Employment, report, p.53, paras.275-8.
- (79) CAB 87 5 R(44)13, 4/2/44
- (80) CAB 87 5 R(44)34, 24/4/44
- (81) Hay, J.R. British industry and the Beveridge report: social planning in the second world war, Economic History Review, forthcoming.
See also, Morrison's essay in Can planning be democratic, 1944.
- (82) CAB 87 5 R(44)34, 24/4/44
- (83) Employment policy, para.54.
- (84) Board of Trade reports, Internal and external cartels, 2 vols, photostat, Bristol University Library.
- (85) CAB 87 6 R(44)60, 11/9/44
CAB 87 10 R(44)74, 27/11/44
- (86) Committee on Post-war Employment, report, p.5, para.12.
- (87) Ditto, p.6, para.17.
- (88) CAB 124 242 Paper on post-war capital expenditure.
This paper was complementary to an earlier attempt to estimate post-war national income and expenditure. The same file contains a note from Robbins, dated 16/12/43, stating that the Economic Section believed that deflationary conditions would emerge sooner than generally expected, which underlines the importance of expectations of recession, rather than inflation, in the long-term aspect of the reconstruction discussions.

- (89) Committee on Post-war Employment, report, p.16, para.66; p.19, para.82.
- (90) CAB 124 205
- (91) CAB 65 42 WM(44)66, 19/5/44
- (92) Committee on Post-war Employment, report, p.15, para.58.
- (93) Employment policy, para.47.
- (94) Employment policy, ibid.
- (95) Employment policy, para.48.
- (96) Committee on Post-war Employment, report, p.19, para.82.
Employment policy, para.61.
- (97) Employment policy, para.65.
- (98) CAB 124 214 Letter from Brook to Woolton, 4/5/44.
- (99) Committee on Post-war Employment, report, p.18, para.78.
- (100) Keynes, J.M. General theory of employment, interest and money, 1936, p.378.
- (101) Employment policy, para.16.
- (102) Employment policy, para.59.
- (103) Employment policy, ibid.
- (104) Committee on Post-war Employment, report, p.50, para.257.
- (105) Employment policy, para.61.
- (106) Committee on Post-war Employment, report, p.19, para. 85-8.
- (107) Employment policy, para.40.
- (108) CAB 124 242
- (109) Committee on Post-war Employment, report, pp.19-21, para. 88-100.
- (110) Ditto, p.22, para.101.
CAB 65 33 WM(43)34, 23/2/43
- (111) CAB 124 207
- (112) CAB 87 6 R(44)52, 10/7/44
- (113) CAB 124 242
- (114) CAB 124 215A
- (115) CAB 124 215A Letter from Eady to Brook, 26/4/44.

- (116) Employment policy, para.62.
- (117) Committee on Post-war Employment, report, p.22, para.103.
- (118) T 230 16
- (119) CAB 124 215A
CAB 124 210
- (120) Employment policy, para.72.
- (121) CAB 124 213
CAB 65 42 WM(44)66, 19/5/44
- (122) Robinson, J. in Problems of economic dynamics and planning, Warsaw 1966, p.340.
- (123) Committee on Post-war Employment, report, pp.26-9, para.122-139.
Keynes, J.M. Collected writings,
vol. 27, 1980, pp.366-7.
- (124) Employment policy, para.77.
- (125) CAB 124 215A
- (126) CAB 124 215A Letter from Eady to Brook, 26/4/44.
- (127) Addison, op. cit., ch. 9.
- (128) Committee on Post-war Employment, report, p.10, para.38.
- (129) Ditto, pp.10-13, para.39-47.
- (130) CAB 65 43 WM(44)113, 31/8/44
- (131) CAB 65 43 WM(44)96, 26/7/44
CAB 65 43 WM(44)102, 4/8/44
- (132) Committee on Post-war Employment, report, p.14, para.54.
- (133) Training for the building industry, Cmd.6428, Feb. 1943.
- (134) CAB 65 33 WM(43)34, 23/2/43
CAB 87 12 PR(43)1, 27/1/43
- (135) CAB 87 6 R(44)51, 3/7/44
- (136) CAB 124 632
- (137) CAB 87 6 R(44)51, 3/7/44
- (138) Committee on Post-war Employment, report, p.7, para.21.
- (139) Ditto, p.13, para.48-9.

- (140) CAB 124 212
- (141) Employment policy, para.8
- (142) CAB 87 18 R(IO)(45)3, 30/1/45
- (143) CAB 124 682
- (144) CAB 124 686
- (145) CAB 124 206
CAB 124 217
- (146) CAB 124 685
- (147) CAB 124 681
- (148) CAB 124 800
CAB 124 801
- (149) CAB 124 682
- (150) CAB 124 680
CAB 124 683
- (151) CAB 124 681 Letter dated 19/12/44.
- (152) CAB 87 14 R(I)(44)8, 20/12/44
CAB 87 17 R(IO)(44)21, 28/11/44
- (153) CAB 65 50 WM(45)58, 4/5/45
CAB 65 50 WM(45)62, 18/5/45
- (154) CAB 124 678
- (155) CAB 124 678
- (156) CAB 87 18 R(IO)(45)3, 30/1/45
CAB 65 50 WM(45)48, 20/4/45
- (157) CAB 87 18 R(IO)(45)2, 16/1/45
CAB 87 18 R(IO)(45)4, 13/2/45
- (158) CAB 87 6 R(44)59, 8/9/44
CAB 65 43 WM(44)126, 25/9/44
- (159) CAB 87 11 R(B)43/1, 15/12/43
- (160) CAB 87 11 R(B)44/2, 11/1/44
CAB 87 11 R(B)44/3, 14/1/44
- (161) Employment policy, para.5.
- (162) CAB 87 14 R(I)(44)3, 31/7/44
- (163) CAB 87 14 R(IE)(44)1, 14/9/44
- (164) CAB 124 681
- (165) CAB 124 684
- (166) CAB 65 44 WM(44)145, 2/11/44
- (167) CAB 65 41 WM(44)36, 20/3/44

- (168) CAB 87 14 R(I)(44)4, 29/9/44
- (169) CAB 124 681 Woolton to secretary of Committee on Controls, 11/9/44.
- (170) CAB 65 49 WM(45)35, 23/3/45
- (171) CAB 124 686
- (172) T 230 17 Quotation from Post-war arithmetic by R.C. Tress. This is an interesting insider's critique of the post-war national income projections being attempted at the time: notably by Nicholas Kaldor, whose effort was published as an appendix to Beveridge's Full employment in a free society.

THE LABOUR GOVERNMENT'S FIRST STEPS, 1945-6

For the 1945 general election campaign, Labour did not make major additions to the reconstruction aims that had been agreed by the coalition government, but offered to the electorate the prospect of a government determined to carry through those aims. As shown in the last chapter, it was on questions of how to implement reconstruction plans, in the short and the long-term, that the coalition consensus was weakest. Apart from the aim of high and stable employment, the greatest significance of Employment policy was that it announced a period of political and administrative experiment, which would have been necessary under any government. What could not be established without a general election was how radical these experiments would be, since there were complex ideological and technical disputes arguments within the coalition. In these circumstances the argument that the Conservatives could not be trusted to carry through reconstruction programmes proved to be a powerful one, and Labour's manifesto Let us face the future stated that Labour would: 'plan from the ground up - giving an appropriate place to constructive enterprise and private endeavour in the national plan, but dealing decisively with those interests which would use high-sounding talk about economic freedom to put themselves and their wishes above those of the whole nation'.⁽¹⁾ While it suggested that a Labour government was prepared to take radical steps if necessary, the manifesto did not move far beyond such generalities. Moreover, during the early months of the government there was 'little or no parliamentary discussion of central planning'.⁽²⁾

Internal discussions about economic planning did, however, begin soon after Labour came to power. New ministerial and official planning machinery was set up, and before the end of 1945 there was also a hurriedly prepared Economic Survey for 1946. The lack of

parliamentary or other public discussion of these developments is explained by the desire to avoid the possibility of planning becoming discredited during the turmoil of reconversion. The lack of publicity did not prevent a sharp decline in public confidence in the government during the crisis year of 1947, when a number of weaknesses and errors of judgement in the steps taken to develop the policy during 1945 and 1946 contributed to the difficulties of overcoming the fuel and convertibility crises; though they did not, as the government's opponents alleged, actually cause the crises

I

Stafford Cripps, the new President of the Board of Trade, set the pace in making proposals about economic planning in the first weeks after the government came to power. He suggested that there should be a National Plan and proposed moving the Economic Section into the Board of Trade, which he saw as the future super-ministry of economic policy.⁽³⁾ Instead it was decided to continue with the tried and tested machinery of the Lord President's Committee. Herbert Morrison, the new Lord President, became the minister responsible for overall co-ordination of economic policy, and he thought it better to leave the Economic Section attached to the Cabinet Office.⁽⁴⁾ One weakness of this arrangement was that Morrison had other important duties apart from the co-ordination of economic policy. No new arrangements were made for obtaining expert economic advice on planning, so James Meade - now the head of the Economic Section - became responsible for making initial proposals. On the administrative side an inter-departmental Steering Committee on Economic Development (ED) was established, the members of which were the permanent secretaries of the main economic departments.⁽⁵⁾ The ED committee was answerable, in the

first instance, to a 'nucleus' of ministers from the Lord President's Committee: Dalton, Morrison, Cripps, and Bevin. At first this body was called the Lord President's (Industrial) Committee, but was later renamed to the Ministerial Economic Planning committee (MEP). The formal responsibility of the MEP was to exercise, on the Cabinet's behalf, 'a general oversight over economic planning'; though it met infrequently.⁽⁶⁾ On the face of it this central machinery should have been authoritative, but in the light of the subsequent failure of the Lord President's committee to get a grip on a number of key problems, a crucial weakness was that the Prime Minister remained outside the economic policy-making machinery. At one point it was proposed that Attlee should chair the key economic committee,⁽⁷⁾ but in the event he did not get directly involved in economic policy committees until the two major crises of 1947.

When it came to establishing the groundwork for economic planning in the short-term, the government faced the very difficult problems of implementation that officials had been struggling with unsuccessfully towards the end of the war. After the formation of the Labour government, official discussions about the use of economic controls continued along much the same lines as previously. There was still confusion about the conditions in which the controls would have to be applied: a Board of Trade official complained that the Ministry of Labour was suggesting at one moment that there would acute shortages, at another that there would be considerable unemployment during reconversion.⁽⁸⁾ Also, it was still not clear how the controls could be used. It was assumed that labour controls would virtually disappear, and that production controls would become more important, buttressed by raw material controls. But officials pointed out that it could be seen as an arbitrary action if the government attempted to withhold raw materials from a firm as a sanction to

support production controls, and that the court actions that might follow would be highly divisive and unpopular. At a meeting of officials held on 6/9/45 the following conclusion was drawn: "production controls, unsupported by other forms of control, would be almost impossible to enforce, and Ministers should not be led to suppose the contrary".⁽⁹⁾ D.N. Chester pointed out once again that, in reporting to ministers, officials had not answered two major questions: how labour could be distributed properly between industries, and how a proper balance between output for export and the domestic market could be achieved.⁽¹⁰⁾ Moreover, apart from problems about how they would be used, the effectiveness of controls was already being reduced by the desire of wartime civil service 'temporaries' to return to prewar occupations, and by the government's policy of persuading departments, in Dalton's words, to 'disgorge' extra staff as quickly as possible.⁽¹¹⁾ The Ministry of Supply wrote to the secretary of the official Committee on Controls that its controls had already been weakened by the end of August 1945.⁽¹²⁾ The disruption caused by the rapid turnover and loss of staff at this time can be imagined, and the records show many signs of it.⁽¹³⁾

It was against this background that the LP(I) committee agreed that whole system of controls should be retained for the time being.⁽¹⁴⁾ Thus the decisions of the wartime coalition were reaffirmed; but, significantly, no new studies of how controls could be used were begun. Not until the Autumn of 1947 was the system of controls again reviewed as a whole. Indeed, far from attempting to strengthen the operation of controls, the accent was on relaxation. Morrison proposed an enquiry into reducing irksome controls at the end of 1945 because it was thought that some departments might be reluctant to follow the principle that controls should be retained only where a need could be proved. The LPC agreed to this approach, though some ministers felt that

insufficient publicity had been given to the fact that many controls had already been relaxed.⁽¹⁵⁾ Later, it was reported that relaxations in controls could be made fairly easily and were, in fact, being actively pursued by departments.⁽¹⁶⁾ From this it is clear that the new Labour government did not make any major change in the policy for the use of controls. Morrison did express a wish to use controls to promote economic expansion (an attitude which economic advisers tried to disabuse him of),⁽¹⁷⁾ but no special measures were taken to strengthen the operation of controls, or to solve the problems of using them.

The only significant exception to this conclusion is that there was some resistance to the relaxation of labour controls. In wartime discussions about the future of controls it had been assumed that the government would maintain the whole system of controls, and that the abandonment of any part would weaken the whole structure. At the same time it was assumed that it would not be practical to use labour direction. For example, 'full' labour direction was used in an attempt to expand textiles production towards the end of the war, but only about one quarter of the workers initially nominated for direction actually entered the industry. The basic reason was that munitions industries paid better wages, and often had better conditions of work as well.⁽¹⁸⁾ As expected, general pressure against labour controls emerged immediately the war ended. Some ministers and departments resisted this, claiming that it would be impossible to carry out the government's policies if labour controls were relaxed. For example, the Minister of Health, Aneurin Bevan, wanted more workers to be directed into the building materials industries, a key bottleneck in the housing programme; and the Ministry of Food argued that labour controls would be essential to keep workers in its low-paid industries.⁽¹⁹⁾ Cripps, in October 1945, also argued for the expanded use of labour

controls: "I must make it clear that, except to a very limited extent, I cannot make good, by production controls on raw material, the loss of direct control over labour". In this he was echoing the views of officials, but arrived at a different conclusion, in that he wanted to expand the categories of workers who could be directed, and to use powers to direct workers back to their pre-war occupations in 'undermanned' industries such as cotton, foundries, jute and housing fitments. Indeed, the Ministry of Labour was called on to 'take the lead' in 'moulding the national economy'.(20)

The Ministry of Labour under George Isaacs, rather than taking the lead in applying labour controls, piled on the pressure for relaxation by indicating that, even if the government did not formally remove the controls, it would not actively enforce them. Attempts that were made to direct people in this period met with some resistance from workers. In one case mentioned in the internal discussion, direction of labour into the building materials industry led to a strike. On another occasion a magistrate gave a courtroom lecture on the need to allow people the freedom to choose their own occupation.(21) The possibility of the judiciary rejecting the continued use of government economic controls had been foreseen in the wartime discussion about the future of controls, and was the main reason why there was special transitional powers legislation after the war; even so, experience showed that direction of labour was a particularly difficult area. By the end of 1945 Morrison felt that the government was being stampeded into a premature decision to remove labour controls. Bevin had to use his great influence as former Minister of Labour and chairman of the Cabinet's Manpower requirements committee to create a compromise in which controls to retain labour would be kept in key areas such as coal and agriculture.(22)

A general question raised by all this was whether

labour controls were necessary for economic planning. As an official in the Lord President's office put it: 'Labour controls go to the root of things ... The large issue here (though I am not persuaded that in existing circumstances it is altogether profitable to discuss it) seems to be - how far does it make sense to think that you can have a "planned economy" if you cannot plan the allocation of manpower as one of the resources on which the economy depends?'⁽²³⁾ There are many other papers and reports dating from this early period of the Labour government in which officials expressed scepticism about the possibility of planning without labour direction. The building programme was an important case in point: it was thought that the combination of building licences and raw material controls would be ineffective to attain the government's goals, yet the Ministry of Works was said to be afraid to use labour direction for fear of a 'Gestapo' image.⁽²⁴⁾ More generally, the official Steering committee on Economic Development felt that it must warn the government that it could not expect any precise, accurate outcome to its plans for 1946 without the use of labour controls.⁽²⁵⁾ In the event, Labour direction was largely discontinued by the end of 1945, being replaced by a requirement for workers to seek jobs through Labour Exchanges; this facilitated persuasion, though it was widely disregarded. Also, there were still Essential Work Orders covering some groups of workers in coal, agriculture and building, but this could not solve the many problems of undermanning, and the government had to weigh up whether this measure acted as a disincentive to recruitment in these industries.

The early discussions on controls, therefore, do not suggest that the government intended to rely on them for the implementation of economic planning in the long-term, or even that it was determined to use them with wartime rigour during the transition. Therefore, it is important to examine what other means of implementing plans were

also being discussed. For example, not everyone agreed that labour controls were the essence of economic planning, though anti-planners found it convenient to argue this. D.N Chester wrote a memo to Morrison informing him that the Economic Section agreed that labour controls should be relaxed and arguing that this was not incompatible with a 'broad economic plan'. According to Chester, one of the reasons that labour controls had been so important during the war - despite their limitations - was that vast and rapid redistribution of labour had been required. In more normal times, when economic changes would be slower, it would be possible to use wage incentives or other means similar to normal market mechanisms to create the desired distribution of Labour.⁽²⁶⁾ This advice pointed to the importance of wages policy in the long-term, though it was of little comfort to the government in the immediate circumstances of the transition.

During 1945-6 there were also a number of discussions in the Lord President's committee that put relations between government and industry in the context of economic planning. Some ministers in the government wished to promote industrial efficiency and re-organisation through tripartite machinery set up to review major private sector industries as well as through the nationalisation programme. Cripps was intent on a policy of setting up industrial 'working parties' consisting of representatives of employers and trade unions with a neutral chairman, an approach which had been generally agreed with the TUC and FBI/BEC. The records of discussions in the LPC show that, as in the wartime discussions on restrictive practices and industrial efficiency, other ministers had doubts about such a policy because one or other sectional interest might come to dominate the tripartite machinery. Cripps' proposal that the working party approach be adopted by all departments for the industries they sponsored was

rejected; instead the decision about the precise form of machinery for industrial reorganisation was left to each individual minister.⁽²⁷⁾ It was eventually agreed that there should be new legislation to set up Industrial Development Councils, an extension of the 'working party' idea; but by the time this became law industry was in a much less co-operative mood, and there was concerted opposition to the setting up of IDC's. ⁽²⁸⁾ So, this tripartist approach to economic planning ran into trouble - at first because of divisions in the government and later because of opposition from outside.

The most successful part of the early efforts to develop a policy of economic planning was the work which led to the series of Economic Surveys. Proposals on this were made by J.E. Meade, who recommended that the work on national income estimation already underway in the Central Statistical Office, Economic Section and Treasury should continue, with two significant additions. First, it should be applied to the current situation of general scarcity in the transition period as well as to the expected long-term problem of general depression. Second, the Economic Survey should look at the 'real' factors underlying the monetary aggregates used in national income and expenditure analysis. In this way both monetary and real aspects of the 'inflationary gap' could be examined; the possibilities of closing the gap could be considered by the ED committee and sent to ministers for decision.⁽²⁹⁾ Meade's proposals were first put into effect in the unpublished 1946 Economic Survey (its 'planning considerations' are examined in detail below). Labour leaders had always intended that economic planning would be open to public discussion, but the government was in two minds about the publication of the 1946 Economic Survey. At the first meeting of the MEP, Morrison said that some things could be achieved by controls, but public helpfulness was paramount;⁽³⁰⁾ the 1946 Economic Survey was, however, a rushed effort, and

the future was uncertain; planning might be discredited if it was published and turned out to be wide of the mark. Cripps went further, arguing that the government had as yet formulated no plan; he proposed that the government should simply announce that it was continuing the exceptional wartime policy into peacetime - this became the agreed line.⁽³¹⁾

At the first meeting of the MEP it was also agreed to prepare a long-term version of the Economic Survey. The year 1950 was chosen because it was expected that conditions would by then have become normal.⁽³²⁾ Again there was argument about publication: Morrison thought it would help industrialists with forward planning; Cripps objected because reliable estimates of raw materials supplies, the basis for sound long-term forecasts, were non-existent. Any forecasts given would therefore have to be on the pessimistic side, and industrialists might be better off without them because they might plan to do less than they could if supplies improved. Conversely, optimistic targets might lead to industrialists attempting too much, which would also discredit planning. Once again, Morrison accepted these arguments.⁽³³⁾

A more important controversy resulted from Morrison's suggestion that future Economic Surveys should be published in conjunction with the Budget. Dalton saw problems with making a close link between economic planning and budget policy, arguing that changes in taxation could not be given the wide advance publicity that planning should have, and that such information was not, in fact, needed.⁽³⁴⁾ (Dalton did not even mention planning in his first Budget, in October 1945.)⁽³⁵⁾ There were several further discussions on this point, in which Meade advocated that the timing of planning documents should coincide with the financial year, whereas Dalton held that it should be the calendar year, keeping the economic planning debate away from the budget debate.⁽³⁶⁾ This opposition to the integration of different aspects

of economic policy reflected both Dalton's 'departmentalist' approach to economic policy,⁽³⁷⁾ and the opposition of Treasury officials to a link between budget policy and broad aims of economic policy. The MEP discussion on the 1946 Economic Survey provides evidence that the Treasury under Dalton was not yet 'Keynesian'.

II

The early discussions on economic planning show that the new Labour government faced the kind of uncertainties and difficulties in the transitional period that had been anticipated in wartime. The prognostications of officials, conveyed in the report of the Economic Survey working party, did not underestimate the problems that the government had to face, although the 1946 Economic Survey was hurriedly prepared.⁽³⁸⁾ Several departments indicated that their returns were provisional. For example, the Ministry of Fuel and Power stated that without an ambitious recruiting programme to get more miners its returns were a 'pious hope'.⁽³⁹⁾ Also, the Survey was drawn up before the completion of the loan negotiations with the United States; so, on the balance of payments it was possible to make only the 'estimates deemed advisable' at that stage in the negotiations;⁽⁴⁰⁾ proposals for the import programme were made on the basis of pessimistic assumptions about the outcome of the talks, a decision justified by events.

With their report to ministers the officials submitted a set of 'Planning considerations', divided simply into measures to increase or to allocate resources.⁽⁴¹⁾ The two main ways in which resources could be increased in the short term were higher imports or increases in the total labour supply available for civilian production. On higher imports, the officials were adamant that any attempt 'to enlarge supplies by means of overseas borrowing, even if practicable, is largely to be

avoided'.⁽⁴²⁾ In theory, yet more Sterling Area debt could be built up, but the officials suggested that import programmes should be tailored to the requirement of equilibrium in the external balance of current payments (excluding military commitments) by mid-1947.⁽⁴³⁾ As for increasing resources through expanding the labour supply it was pointed out that the forecasts in the Survey already embodied some assumptions that might require action to make them valid: for example, keeping more women in the workforce and ensuring that unemployment did not continue to develop in the former depressed areas. (This was the problem of 'patches' of unemployment developing during reconversion. Although unemployment overall was at a very low level of 2%, there were spots where unemployment was already much higher, e.g. in Wales it was at 9%). While both these policies would increase national income to some extent, the overall gap between requirements and supplies was still very large.⁽⁴⁴⁾ In short, the 1946 Economic Survey report held out little hope of increasing resources through higher imports or a larger total labour supply. Therefore the officials recommended reductions in the government's current expenditure, especially the armed forces, through faster demobilisation. This would allow an increase in national income and, insofar as overseas expenditure was involved, any reduction would also help the balance of payments. Expenditure on the armed forces included an element for supplies, and here the officials suggested that use of stocks and postponement of re-equipment would allow further releases of labour and raw materials and productive capacity.⁽⁴⁵⁾

On exports the report advised: 'It would be dangerous deliberately to lower the export target', although it was admitted that the attainment of the export target provided 'a most difficult administrative problem and achievement of the target will continue to be problematical as long as there is a large volume of

unsatisfied home demand'. Here the official planners saw a dilemma: any attempt to restrict supplies for domestic consumption would have unavoidable and complex reactions on exports, because there were few 'pure' export industries; therefore it was difficult to withhold resources from the production of goods for domestic consumption and transfer them to the production of exports.⁽⁴⁶⁾ Besides, it was pointed out that government controls were at their weakest in restraining domestic consumption directly, except in the fields of food and clothing, where programming and rationing were still relatively complete. Furthermore, 'Measures to control supply may be impossible effectively to operate against a background of free labour movement and will do nothing to effect an equitable distribution'. In the light of this, the officials placed some emphasis on the use of fiscal measures to restrain personal consumption outside the elements of consumption demand already controlled by rationing.⁽⁴⁷⁾ But, in general, any large cuts in personal consumption contained the danger of damaging incentives to work as well as the possibility of indirect adverse effects on exports. Therefore the report recommended a policy of holding steady the current levels of personal consumption in key areas under government control, rather than making a modest increase, as had been assumed previously in adding up the requirements for 1946.⁽⁴⁸⁾

Another point at which restraint could be exercised was over private and public capital investment. It was specifically pointed out that the housing programme was the major part of the public outlay and, as was shown in the last chapter, there were already severe doubts about the scale and practicality of this programme.⁽⁴⁹⁾ The 1946 Survey report argued that, 'At a time when demands for current supplies are so very urgent, the case for postponing long-term projects is strong, particularly when an easier situation can be foreseen in the not-too-

distant future. On the other hand, it is undoubtedly true that in many parts of the economy restoration of supplies to the levels, and at prices, assumed will not be possible unless a substantial amount of deferred capital expenditure is undertaken'. However, the officials recommended that a 10% overall cut would probably not damage essential capital needs.⁽⁵⁰⁾ The report accepted that in reconstruction planning a building programme had been adopted which set a target for the build-up of the labour force in the building and civil engineering industries to a point above their 1939 level by the end of 1946, and this figure had not been altered by the Labour government. This ambitious target was connected with the housing programme in particular, but also involved war damage repairs, work in the development areas (e.g. factory building and infrastructure) and many activities 'conducive to industrial efficiency'. 'Nevertheless', the report concluded, 'the question may be raised whether we should build up the building labour force so quickly as these figures assume'.⁽⁵¹⁾

The general conclusion of the 'Planning considerations' in the 1946 Economic Survey report was that closing the gap would require a number of actions; no single element of national income could 'bear the whole brunt of the reduction needed to close the gap between target national income and expenditure'.⁽⁵²⁾ It was also pointed out that in the absence of government action to close the gap it be closed by haphazard distribution; but the officials thought that the recommendations in the report should, if followed, secure the government's main priorities. A version of the report was first discussed by ministers as early as September 1945 at the Lord President's committee, where the continuity with wartime practice was stressed, because it was called the '7th Economic Survey'.⁽⁵³⁾ Dalton summed up simply: there was a need to increase exports, to cut imports and reduce military expenditure

overseas. Ministerial discussions came to a head in early 1946, and the minutes of the MEP committee show that ministers placed the main stress on manpower policy. Dalton said that the 1946 Survey revealed a conflict between military and reconstruction priorities, and he proposed that drastic cuts should be made in the armed forces, stating that a decision on this was vital.⁽⁵⁴⁾ Broadly speaking, ministers accepted the arguments in the officials' report. A significant exception was the contention that too many resources were being committed to the building programme. Morrison's political adviser E.M. Nicholson wrote to him on 18/1/46: "Any suggestion that the building programme might be slowed up could not possibly be defended in Parliament and must be resisted". Morrison noted his agreement in the margin of the letter.⁽⁵⁵⁾ Two main lines of attack on the problem were adopted: reducing the armed forces faster, and reviewing the level of investment.⁽⁵⁶⁾ Thus the ministers accepted the main policy recommendations of the officials.

III

During the 1947 convertibility crisis a criticism often made was that there had been a lack of planning in 1946, and that the government had allowed the crisis to develop unchecked. The argument was developed most coherently by Roy Harrod in Are these hardships necessary. He charged that ambitious programmes had been started 'without a proper calculation of whether our own saving plus the foreign credits would suffice to see them through'.⁽⁵⁷⁾ His main criticism concerned 'excess capital outlay', but it was also an important part of his argument that the government had failed to plan the spending of the Loans. Was there any truth in this? Half-yearly import programmes were drawn up by the Treasury and considered by various committees before being passed to ministers.⁽⁵⁸⁾ The combination of state trading and

Treasury control over foreign exchange probably ensured tighter central control over imports than over most other aspects of economic policy at this time. True, there was some criticism of the machinery for controlling imports when this was first discussed at the end of 1945. Meade thought that the Treasury's technique of import programming was a 'hole and corner' affair. However, this criticism was concerned more with a desire to integrate economic policy as a whole than a fear that the Treasury was squandering foreign exchange.(59)

The principles on which the import programmes for 1946 were based do not support the idea that there was a lack of planning. For the first half of 1946 a 'neutral' import programme was drawn up, holding the different aspects of imports steady. In the event, imports for the first half of 1946 were less than programmed, due to a world shortage of food supplies and a steel strike in the United States. In the second half year the import programme began to take account of the coming problems of convertibility. The Treasury was insistent that trade must be balanced by mid-1947 (i.e. by the time of convertibility), except for military requirements.(60) Did anything happen during 1946, after the Loan had been agreed, to change the situation? In July 1946 the MEP considered the dollar import programme to be followed if the United States finally approved the Loan, and it agreed to buy some extra food, tobacco, raw materials, and petrol. More fruit was to be imported, to add variety to the national diet. The increase in imports was small (\$40m on top of the \$550m food import programme), and was judged to be justified by the success so far in the export programme.(61) This is hardly evidence that the government squandered the loans. On the import side, then, it appears that Harrod's case is not really upheld. There was planning of imports, and the problem of what to buy with the US and Canadian Loans was taken into account.

It is ironic that in 1947 the government came under

attack for 'squandering' the dollar loan; in 1946 it was criticised in the press for not providing enough freedom of choice of imported consumer goods, especially those that involved dollar expenditure. Newspaper proprietors were not disinterested, because they were pressing for more imports of newsprint. Ministers' frustration about press criticisms is vividly illustrated by the following quotation from the minutes of the Lord President's committee: "It would be worth pointing out to the newspaper proprietors that they ought not to use the additional space which larger dollar imports of newsprint would give them to criticise the government for not importing larger quantities of other dollar commodities, such as petrol". It was also suggested that newspaper proprietors themselves should be pressed to give the public 'greater freedom of choice'.⁽⁶²⁾

On the export side there was no formal export programme; rather, there was a series of informal agreements about 'export ratios' which were based on the policy agreed before the end of the war. At first there was no attempt to direct exports to any particular country, the aim was to provide at least a 'trickle' of all types of commodities for export to all markets, rather than to create any priorities about what to export and where to export to.⁽⁶³⁾ As mentioned above in connection with changes in the import programme, the government was at first pleased with the progress being made, which was better than expected. In October 1946 the picture began to change. Dalton informed the MEP that the US and Canadian credits were being spent too fast, and that serious difficulties would be created as a result of sterling becoming convertible before other 'soft' currencies. Morrison's view was that, "the situation was extremely serious and unless it was dealt with adequately, there was a risk that the country would be faced with a disaster comparable to that of 1931".⁽⁶⁴⁾ The MEP's subsequent discussion on exports marked a

turning point in policy. A provisional export target was set, and it was agreed to examine the structure of exports, because exporters were running into raw materials problems. Also, the question was raised as to whether there should be guidance of exports to particular countries. An official Working Party on the Guidance of Exports was set up to 'consider all questions arising in relation to the implementation of the policy of expanding UK exports to certain 'hard' currency markets'. Thus, well before the convertibility crisis, the government set about tackling the balance of payments problem that could be foreseen. In these first discussions of export guidance an issue arose which was to have long-term significance in the attempt to apply techniques of economic planning to export policy. Rootes motors wanted extra steel allocations for the production of MG Midget sports-cars which, it was thought, would be a success in the US market.⁽⁶⁵⁾ There were several problems here: Steel was in very short supply, and there were many competing demands. Could the government be sure, if it allocated the steel, that the firm would have the success it expected? The difficulty was that the government would have to decide on a question of commercial judgement. Moreover, other firms would inevitably complain that they had been treated inequitably.

Whatever the difficulties, the evidence from the records of import and export policy during 1946 show that the government did apply central planning techniques to imports, and kept a close eye on export policy. Of all the aspects of economic planning, the calculation of how to spend the dollar loans was probably the most carefully scrutinised, and most effectively controlled. What became clear later was that the use of these dollars as the date of sterling convertibility approached was not completely under the control of the British government, but the convertibility crisis of 1947 does not bear out Harrod's argument that there had been a lack of planning in the

government's own dollar expenditure. If there was a lack of planning it concerned the failure to deal effectively with various symptoms of inflationary pressure in the domestic economy.

IV

According to the 1946 Economic Survey the most effective way of increasing the national income as a whole, and thereby reducing the inflationary pressures of the transitional period, was to cut the armed forces and supply industries at a faster rate. On this issue, foreign and defence policies intersected with the problems of economic planning, and it was dealt with by Cabinet committees on Defence and Manpower Requirements, chaired by Attlee and Bevin respectively. The Defence committee had to deal with the argument put forward by the Service chiefs, that faster demobilisation would require a reduction of foreign policy commitments; either that, or assumptions had to be made that existing commitments would not entail a use of military power. Here the Chiefs of Staff stressed the uncertainty of the short-term outlook.⁽⁶⁶⁾ For their part, ministers argued that a balance had to be struck between the extent to which Britain's future prosperity depended upon a clearing up the international situation in the coming year or upon an additional build-up of productive capacity. Bevin expressed concern about the world situation, but in Dalton's view: 'The whole picture of defence manpower and expenditure appeared out of scale, and if there was no quick drop, particularly abroad, in the expenditure, he could not promise anything but economic disaster.'⁽⁶⁷⁾

It was agreed in January 1946 that the armed forces should be cut faster. New ceilings were fixed for the armed forces on the assumption that there would be no trouble in India or Palestine. This would have reduced

the projected manpower gap in the 1946 Economic Survey to 600,000 as against the original gap of over 1.3m.⁽⁶⁸⁾ After the decision on defence cuts a 'reassuring' picture emerged,⁽⁶⁹⁾ and this was the basis of the government's subsequent optimism about inflationary pressure, which had a particularly strong effect on the question of the investment review recommended by officials, which is discussed below. A crucial limitation of the proposed cuts, however, was that the biggest reductions were scheduled for the second half of 1946, so the economic effects were bound to be delayed.⁽⁷⁰⁾ Growing problems in Palestine, India and the Far East, and commitments to the occupation of Germany were the main reasons for resistance to implementing the cuts earlier. During 1946 the cuts were progressively scaled down.⁽⁷¹⁾ It is not possible to say what contribution this made to the subsequent problems of inflationary pressure and the

Table 1.

Numbers in civilian employment and the armed forces, 1938, 1945-51

(Thousands)

	Civilian employment	Armed Forces
1938	20,986	432
1945	19,100	5,130
1946	20,300	2,730
1947	21,600	1,460
1948	22,124	940
1949	22,300	790
1950	22,582	721
1951	22,751	838

Source: Feinstein, C.H. National income, expenditure and output of the United Kingdom 1855-1965, 1972, Table 57.

balance of payments, but on this point the government clearly did not follow a very important aspect of the 1946 Economic Survey policy.

The difficulties caused by any shortfall in the total labour supply available for civilian production were exacerbated by having no means, once the use of labour direction was discarded, of achieving a better distribution of labour between industries, especially in some key industries: mining, textiles, building and agriculture. As mentioned above, the Ministry of Food had opposed the immediate scrapping of labour controls, but also argued that there was an urgent need for some kind of wages policy.⁽⁷²⁾ This indicates the close connection between the waning of labour controls and the rise of wages policy. There were, however, several major problems with the use of wage incentives to redistribute the labour force. The wage differentials required to correct the 'maldistribution' could upset traditional differentials, and might threaten a wage price spiral. Also there were few ways for the government to alter the price of labour in private industries in order to distribute labour in conformity with its priorities. To the Economic Section wage incentives were the only effective way to solve labour 'maldistribution'. In a discussion paper the flippant suggestion was made that, 'if coalminers were paid like millionaires, even civil servants might be induced to go down the mines!' Wartime experience supported the idea that labour could be redistributed quickly by relative wage changes: most wartime recruitment had been voluntary. But there was always the fear that raising wages could lead to general inflation, and this was clearly a strong possibility in the transitional period when the level of monetary demand (or, at least, potential demand) remained high, while the support for controls was waning. The Economic Section speculated about wage rises linked with the price index, and about the possibility of reductions in some wages to

offset increases in others.⁽⁷³⁾ But there were more fundamental issues: in the prevailing circumstances of rationing and scarcity, if people had higher wages would they simply work fewer hours? It was estimated that by the end of 1945, average working hours had returned to the pre-war level.

Ministers and officials nevertheless discussed wages policy throughout 1946. A sub-committee of the ED committee produced a report recommending against any state fixing of wages, though recognising a need for radical changes in wage-fixing in an era of full employment. This was virtually an echo of the recommendations of the 1944 report of the Committee on Post-war Employment and Ministers broadly agreed with this line. At this stage, nobody advocated compulsory wage fixing by the state, though there was a general feeling that the government would probably have to intervene in the future.⁽⁷⁴⁾ ^(Minister of Fuel and Power) Shinwell wanted a policy of minimum wages in low-paid industries, higher wages in 'unattractive' industries and a principle that wage rises must be accompanied by productivity increases (this latter point was basic to nearly every discussion of the question, but not the former two points). Morrison was more cautious, wanting a period of public education after which he hoped trade unions and employers would welcome increased guidance from the government. For the immediate future the LPC accepted Isaacs' proposal for a consultative 'National Industrial Conference', which was duly held on 17th July 1946.⁽⁷⁵⁾

After this conference the LPC again discussed wages policy. A further report from the official working party was considered, in which it was predicted that there would be slow-down in wage rises, and a period of stability, as the post-war round of bargaining came to an end. There were some 'threatening' rises, but the Minister of Labour felt that on the whole trade unions had been less ruthless in taking advantage of labour

shortages to raise wages than employers had been in cutting wages during unemployment before the war. Once again the discussion came round to the view that there would have to be 'positive' intervention in wage fixing, but it was agreed that a public statement should be made stressing government non-intervention. Cripps nevertheless insisted that there was a need to break with the rigid wage pattern of the past which in his view was 'incompatible with the existing economic situation'.⁽⁷⁶⁾

Thus, both labour controls and wages policy were found to be inadequate general solutions to the restructuring of the labour force in the prevailing inflationary conditions. Both were politically unacceptable and unenforceable. Raising wages to get people into industries, although it had been successful during the war, was seen as potentially inflationary as well as probably ineffective. Two other avenues were explored; the first was to control the distribution of consumption goods in such a way that higher earnings would be made effective in some key industries. The other was generally to 'disinflate' the economy by financial means so that relative wage changes could work without threatening inflation. The investigation into ways of providing workers with incentives arose out of the deliberations of the Lord President's committee, and was centred on mining, which was the most important supply bottleneck to break. Could some way be found to induce miners to work longer hours, and to reduce absenteeism? Shinwell believed that a wider range of consumer goods available in mining areas, for example apples and other non-rationed goods, would achieve this. There were doubts, but it was agreed to set up a special committee to look into incentive schemes.⁽⁷⁷⁾

Before examining the incentives discussion, a brief digression on the problems of the mining industry is in order. At the very first meeting of the Lord President's Committee under Labour there was a discussion about the

prospective deficit in the coal budget.⁽⁷⁸⁾ In October 1945 Morrison told the LPC that the coal problem had to be tackled with the 'utmost vigour'.⁽⁷⁹⁾ The records of the LPC show Morrison pressing time after time for action. The Minister of Fuel and Power, Shinwell, replied time after time that matters were getting better.⁽⁸⁰⁾ On one occasion, in fact, it was minuted that Shinwell had done much to halt the decline of output that had become a feature of the industry,⁽⁸¹⁾ but this was false optimism. Many different possible solutions to the coal problem were examined in the LPC discussions⁽⁸²⁾ but none was without difficulties. At first it was hoped that more machinery could be applied in pits or in open-cast mining; however, the opportunities for this were limited; in one case an ambitious scheme for new open cast mining ran into environmental objections,⁽⁸³⁾ and there were problems with the open-cast mining machinery itself.⁽⁸⁴⁾ It was hoped that the prospect of nationalisation would transform labour relations in the industry, but there was little sign of this.⁽⁸⁵⁾ Indeed the recently-formed NUM wanted reforms which the government feared would lead to a lower output from the existing labour force. At the same time there were ever-rising demands for power which were very difficult to control.⁽⁸⁶⁾ Furthermore, with the transport system in a run-down state it was a problem to ensure that existing stocks were distributed to users.⁽⁸⁷⁾ What the campaign to increase supplies of coal came down to in the end was the need to persuade the existing workforce to work longer hours, or to persuade other workers to join the industry.

This was where the 'incentives to production' scheme came in. It was proposed that a list of 'priority' areas, industries or groups of workers should be drawn up, and that extra rations should be delivered to the areas in which those workers lived, or that 'luxury' goods should be displayed in canteens. (The 'extra

rations' were scarce foods like fresh fruit. The 'luxury goods' were consumer durables like radios and bicycles). It was suggested that workers with good output records could earn a priority certificate which would entitle them to buy luxury goods displayed in canteens.(88) These proposals aroused fierce opposition. The Board of Trade, in reply to a request for a list of goods that might be used for incentive purposes, argued that to include prams (a luxury good) would be an unacceptable form of social discrimination, and the official respondent wrote: "I know you will not take this list as implying that I regard this scheme ... as a fruitful method of overcoming these ... problems".(89) The Ministry of Food questioned the fairness of treating one group of workers as an elite, objecting to the inclusion of jam and other rationed foods in the list of 'extra rations'.(90) A principle of Fair Shares had been laid down very firmly during the war; moreover, one of the principles for the operation of controls agreed in the reconstruction discussion was that Fair Shares would continue to operate in conditions of post-war scarcity. The Ministry of Labour also denounced the idea of providing incentives through the redirection of goods as 'psychologically unsound'. Indeed, it would not be an exaggeration to say that the whole incentives discussion was viewed with contempt by the officials involved. The upshot of the incentives discussion was that a 'crude and quick' scheme was adopted, for the mining areas alone.(91) Some goods would be diverted to mining areas where, because of the geographical isolation of mining communities, it could be guaranteed that extra goods would be exchanged for miners wages rather than satisfying more general demand. Since it was inevitable that it would become known that this diversion was taking place, it was proposed in the LPC that an announcement should be made that miners had previously been getting less than their fair share.(92)

Above all, this discussion indicates the lack of room to manoeuvre that the government felt in 1946 when tackling key bottlenecks. 'Surely anything is worth trying', was the despairing comment made by Chantler of the Economic Section, in the face of the criticisms of the incentive schemes.⁽⁹³⁾ Discussions in the LPC had a similar air of desperation. As in wartime the Lord President's committee was the centre of week-to-week consideration of economic policy, and there were monthly reviews of stock statistics provided by the Central Statistical Office, so ministers were reminded every month about the difficult stocks position and the critical state of coal production. Yet there was an air of paralysis: bizarre discussions about the relation between the re-opening of greyhound tracks and miners' absenteeism, and fulminations against minor 'inessential' use of labour and raw materials replaced the drive to attack the fundamental problems.⁽⁹⁴⁾ The conclusion must be that the government made a major mistake in not switching its energies to tackling the problems of allocation once it found it impossible to improve the outlook for supplies. The 'crude and quick' measures probably made very little difference to supplies, and had the disadvantage that they stirred up doubts and dissensions among officials and ministers. But, the idea was firmly implanted that the aim of economic planning was expansion, so all the effort went in this direction, even after a dead end had been reached.

V

As mentioned above, arising from the 1946 Economic Survey discussions the government agreed that investment projects should be scrutinised. The officials had recommended a 10% overall cut, and an Investment Working Party under the official Economic Development committee looked into this question.⁽⁹⁵⁾ The scrutiny resulted in

the re-iteration of a number of arguments familiar from wartime discussions, pointing to the difficulties of central co-ordination and implementation of investment control. Chief among these were that investment projects initiated by central government would be the easiest to control, and that local authority and private investment could be restrained only crudely by building controls. The Treasury suggested to the IWP that "for most purposes a clear division may be drawn between the 'physical' aspects and the financial aspects of investment. It is further assumed that the physical side will be the principal preoccupation of the Investment Working Party". This example of Treasury isolationism piqued some members of the Economic Section, but otherwise there was little energy in the 1946 investment review.⁽⁹⁶⁾ Following the Cabinet's decision to cut the armed forces more quickly, ministers believed that inflationary pressure would be relieved without cuts in investment.⁽⁹⁷⁾ When the Ministerial Economic Planning committee considered the control of investment in April 1946 it was said that the first version of the 1946 Economic Survey had exaggerated the manpower gap, and the committee would therefore want to 'wait and see' about investment cuts.⁽⁹⁸⁾ During the official scrutiny of investment the Ministry of Labour commented: 'A review of the current manpower position, which shows increases on the supply side and reductions on the requirements side, suggests that there is now no need for cutting investment in 1946 at all'.⁽⁹⁹⁾

Another combination of expectations which worked against the idea of investment cuts was that the transitional period would quickly turn into recession, and that it would prove to be difficult in practice to stimulate reflationary investment. At this time the Economic Section were still busy studying how to stimulate the economy in the event of a recession.⁽¹⁰⁰⁾ A recession in the United States economy was seen as the main danger. Economic controls there had been quickly

scrapped after the war. Output, prices and employment were all rising, and there were 'remarkable' increases in consumption of non-durables. A.J. Brown of the Economic Section reported that deflation seemed some way off, but concluded: "Prospects for full employment in the long-run, without a great change in the extent of government intervention, are not very bright".⁽¹⁰¹⁾ J.C.R. Dow also wrote a paper about the possible magnitude of a future depression, stressing the historical instability of the US economy.⁽¹⁰²⁾

There was, then, an expectation of recession, but wartime studies had revealed the administrative and political difficulties involved in controlling both private and public investment, and these were underlined during 1945 by D.N. Chester's studies on the problems of controlling local authority and public utility investment, showing how decentralised decision-making was for most public investment.⁽¹⁰³⁾ These expectations affected ministerial decisions on investment projects coming up for consideration in 1946. There was the possibility of putting some projects on a 'shelf', ready to take up the slack in any recession; but if nothing was done to get projects actually underway, then they might only reinforce inflationary pressures in the next phase of the economic cycle, rather than contributing to reflation. On this argument it seemed to be prudent to allow some projects to go ahead even if insufficient resources were available to carry them forward rapidly in the short-term. Not that it would be accurate to suggest that ministers ignored the fact that the economy was currently short of resources and highly inflationary. For example, it was agreed that only projects which were most economically justifiable should be given the green light.⁽¹⁰⁴⁾ Also, in line with official studies it was seen as particularly important to keep a firm hand on those investment projects over which the central government had direct control. To this end, Morrison

argued that road-building plans should not be publicly announced because of a need to preserve the 'utmost flexibility'.⁽¹⁰⁵⁾ Sometimes different objectives reinforced each other: thus there was a decision to go ahead with the North of Scotland Hydro-Electric Scheme, rather than to put it on the 'shelf', because of the need to increase electricity supplies; this scheme clearly had important implications for regional development as well.⁽¹⁰⁶⁾ In other cases the justification for going ahead was not so clear: it was agreed to proceed with the project for the Forth road bridge because Scottish feeling could not be ignored, even though the economic arguments for it were thought to be not strong.⁽¹⁰⁷⁾

Another important factor working against the idea of investment cuts was the fear of a re-emergence of regional unemployment. It will be recalled that the 1944 report of the Committee on Post-war Employment placed great stress on the building houses, factories and infrastructure in the former depressed areas, both as a means of providing employment and of restoring a balanced community. In 1945 an Economic Section writer commented that insufficient action had been taken on distribution of industry policy to solve the pre-war problem of structural unemployment.⁽¹⁰⁸⁾ Also, as early as June 1946, while reconversion was still going on, Harold Macmillan criticised, in Parliament, an 'alarming rise in unemployment', by which he meant the emergence of patches of unemployment in former black-spots such as South Wales and Scotland.⁽¹⁰⁹⁾ To tackle this problem, which the government took very seriously, a complex set of difficulties had to be faced. For a start, there was a lack of skilled building labour in the Development Areas, even though structural unemployment was reappearing.⁽¹¹⁰⁾ In the LPC it was suggested that only a limited amount of people in the development areas could be employed on building,⁽¹¹¹⁾ yet it was clear that a lack of infrastructure was one of the major factors in creating

the regional economic imbalance. Paradoxically, the government had to take action to overcome labour shortages and redistribute resources to the former depressed areas even though they were again experiencing significant unemployment. Dalton, who played a leading role in regional policy during the reconstruction discussions, argued that unless the machinery for dealing with problems of the Development Areas was improved there would be a repetition of the inter-war pattern of unemployment.⁽¹¹²⁾ It was therefore agreed to set up a special sub-committee of the LPC to deal with distribution of industry questions, which involved it in such problems as uneven distribution of raw materials, affecting Scotland in particular.⁽¹¹³⁾ Generally, in the South of Britain there was not enough labour to match the available supplies of raw materials, whereas in Scotland the reverse was the case, and this was seen as the main factor leading to a higher level of unemployment there.⁽¹¹⁴⁾ A panel set up by this committee was, for a some time, the only ministerial committee regularly scrutinising investment projects. Since its main purpose was to encourage investment in the Development Areas while holding back projects in areas of labour shortage, this was a cause for irritation among officials who wanted reductions in overall investment.

The government therefore took a strong line on regional policy, but economic advisers and other officials who wanted to deflate the global total of investment had little sympathy with this priority. An Economic Section study on reconversion in the regions, written in 1946, was dubious about directing more materials into the Development Areas, arguing that labour mobility away from them was 'the only immediate solution'.⁽¹¹⁵⁾ Thus, there were signs of a retreat by officials from the view that had been so firmly stated in the reconstruction discussions, that a determined policy would be needed to prevent the resurgence of the pre-war

pattern of regional unemployment. All this underlines the fact that unemployment, even in a time of severe inflationary pressure, was still regarded as one of the main problems of economic policy, though at this time it was seen through the prism of regional policy. The general difficulty was that what was needed to make a more even distribution of materials, and hence of employment in the longer-term, were bound to intensify the problems of inflationary pressure in the short-term.

These problems were manifest in an acute form in the building programme, which was central to investment and regional policies. There were shortages of labour and materials and delays in carrying through projects. In the reconstruction discussions and in the 1946 Economic Survey the problems of the building programme were thought to be particularly complex, and perhaps intractable. One area of difficulty that had been identified before the end of the war was the possibility that controls could not prevent resources from escaping into less essential types of building. This fear was confirmed soon after the end of the war: there were early signs of a black market in building materials. In Birmingham the housing authority was "said to be short of labour, while contractors have both the labour and the materials required for black market operations".⁽¹¹⁶⁾ The situation was made worse than it might have been by an elementary planning blunder: the massive planned expansion of the construction labour force was not matched by a planned expansion of the building materials industries. This was pointed out by D.N. Chester in October 1945 ⁽¹¹⁷⁾ (Earlier, in 1944, a Ministry of Production report on reconversion had estimated that in mid-1944 the building materials industries were operating at less than 60% of the 1938 level, and that there was a 'substantial gap' to be bridged, but little appears to have been done about it.)⁽¹¹⁸⁾ Chester claimed to Morrison that the Economic Section had already complained

about this error. In any event, it was to cost the government a lot of effort in 1946, when emergency measures had to be taken to try to expand the building materials industries, and ensure an orderly distribution of resources.

There were also shortfalls in general building labour. This led to many discussions about labour control in the Lord President's Committee in 1945-6. It was suggested that Essential Work Orders (to keep people on a job) should be used for the most urgent work. But there was disagreement about where the problem lay; some said it would be better to have improved machinery for deciding competing claims for labour (e.g. factories vs houses within the building programme), rather than use labour controls. Besides, there were doubts about whether EWO's would work in practice.⁽¹¹⁹⁾ However, finally it was agreed to use them for particular housing and factory schemes.⁽¹²⁰⁾ It was also agreed to set up new central machinery for the building programme: a Ministry of Works 'HQ' committee was set up to co-ordinate the building and civil engineering programme.⁽¹²¹⁾ But these measures could not solve all the problems of the building programme. The shortages were too numerous. Indeed, it was sometimes argued that there was little point in taking extraordinary measures to get labour into the building industry when there was such a shortage of materials that workers would have a very low level of productivity. Lack of bricks and other building materials, of steel, of timber, of castings, of oils and paints, all took a toll of productivity in the building programme, despite the efforts that were made to overcome them.⁽¹²²⁾ These problems were compounded by the fact that there was a form of 'licence inflation' in the building programme during 1946, which was the result of the issue of building licences without due heed to their impact on total resources. Shortages, the black market, planning blunders and licence inflation had the result

that far more buildings were started than could be completed in a reasonable period.⁽¹²³⁾ The situation in the building programme, in short, was a symptom of general inflationary pressure, and indicates that the ministers were too sanguine when they decided, at the beginning of 1946, that the measures they had agreed would reduce inflationary pressure and obviate the need for investment cuts.

The building programme was not the only part of the economy to experience 'licence inflation', something very similar happened in steel, where the relationship between supplies and allocations got out of control by the end of 1946. At the end of war there was an optimistic report from the Ministry of Supply, claiming, "steel is now in adequate supply over a large part of the field".⁽¹²⁴⁾ But by mid-1946 it was clear that a number of problems were developing. Domestic output of steel was about equal to the average in the 1930's, but overall requirements were increasing while imports were very scarce, mainly because of strikes in the United States. In this situation it did not help that the distribution system had changed: instead of ordering steel directly, departments were authorising consumers to order steel themselves; departments were no longer steering deliveries, and the market now consisted of a large number of small users, whereas in wartime departments had dealt mainly with large users who then passed their allocations of steel to sub-contractors. This made it much more difficult to operate the 'M-form' system, which licensed the end-use of steel. Some were in favour of a looser system of allocation, for example a broad allocation to whole industries. Tress briefed Morrison on this issue, arguing that the government would not be able to secure the end-products it required if the M-form system was abandoned. The variety of end-uses made the licensing system harder to operate, but not all end-uses had equal priority.⁽¹²⁵⁾ By the end of 1946, just before the next

round of steel allocations, Frank Lee, permanent secretary to the Ministry of Supply was insisting that there was 'no short cut' to solving the problems of steel supply. True, in a letter to Brook at this time Lee also said that the general situation was improving, but he cautioned that there was little hope of any relief from imports of steel, and there was a possibility that planned allocations would have to be cut. It was agreed that Morrison should be informed 'in general terms about the difficulties which seem to lie ahead'.(126) What emerged later was that the steel allocations system had virtually broken down, and the combination of supply problems and 'licence inflation' was to be a major headache in the following year.

In general, then, the government did not succeed in closing the 'real' gap in resources which had been calculated in the 1946 Economic Survey. For various reasons it did not manage to increase the total resources available, and it also failed to take a firm grip on the problems of allocation which developed as a result. In the context of the developing steel shortage R.S. Sayers of the Economic Section made the following general comment:

'... although the problems of control vary, it is becoming increasingly apparent that the need for tightening various controls does have one common origin: we have put the label "Essential" on too many objectives. We have to ration coal, timber, building materials, steel and (in effect) aluminium, and for all of them every use seems to be linked with some general commitment - housing policy, the export drive, etc ... Is not the common root of much of the trouble an excess of total money demand for consumption plus investment plus government service? Would not the specific problems all be eased if some general measures were taken to prune the total money demand

now permitted to find expression in the market?'(127)

This type of argument, for control of monetary demand through financial policy, was an important theme of economic advice during 1946, and was essentially presented as an alternative to tightening up controls, which the government had certainly been reluctant to do. The earliest serious discussion of inflationary pressure took place in July 1946, the main analysis being made by Meade. After discussion of Meade's paper it was agreed to examine the cost of living index and the prospects for reducing subsidies appreciably in 1947. This accorded with Keynes's advice to prepare 'very secretly and behind the scenes' to let prices rise.(128) There was a study of the effects of subsidies and purchase tax policy on the cost of living.(129) Revision of the Retail Price Index was discussed, but nothing was done because it was feared that any revision would show a rise, and this would possibly lead to wage pressure in itself.(130) Nothing much came of any proposals for financial disinflation in 1946, but Meade's paper was used again for the 1947 Budget. His arguments for disinflation are worth considering in more detail. He began with the point that, since 1940, the essential bulwark against inflationary pressure had been direct controls over expenditure, especially price controls. Even in the absence of rationing or licensing these effectively limited total expenditure: 'Those at the head of the queue who are lucky enough to find any of the price controlled goods obtain their supplies, while those at the tail of the queue have to take their money home to invest in savings certificates'. The alternative would be to bring the total demand for goods into balance with the total supply of goods by a fiscal policy, instead of continuing to dam up demand.(131) Meade thought, in 1946, that this would mean allowing the supply of goods (especially consumption goods) to increase, without

reducing taxation. Other techniques could also be used, such as temporary high rates of purchase tax on selected goods, to deter some types of consumption (this was later attempted with electrical goods to try to reduce the increase in domestic demand for electricity for space heating and cooking).

Meade gave several reasons for decreasing the reliance on direct controls. First, price controls were weakening anyway, with consequent dangers of queues and black markets. Second, if consumers could not find the goods they wanted this would be a disincentive to produce, since additional monetary income would be useless. Third, 'So long as more or less rigid price control is necessary ... it will be very difficult to bring about ... changes in the economic structure'. If there was an increase of prices and wages in one industry, the demands from other industries might be irresistible in the prevailing conditions of overall excess demand, possibly leading to general inflation. Meade saw this as a 'most serious obstacle' to planning in a free society. Finally, there was the 'pure economic cost of managing affairs through the administrative machine rather than by making some use of the price mechanism', together with the possibility of a 'undesirable reaction against the whole idea of State planning'. (He thought it would be interesting to know 'what proportion of the increase of more than one quarter of a million in the whole-time non-industrial staff of the National Government between 1939 and 1946 might be attributed to this sort of cause'.)(132)

Later in 1946 the argument for a more active financial policy reappeared in the planning machinery through the report of a working party chaired by Bernard Gilbert, on 'Wages and prices policy and means of carrying out planning decisions'. In this report inflationary pressure was seen as the main problem, and Gilbert's working party saw it as extremely important to get the pressure down in order that normal market forces, e.g. wage incentives to

redistribute labour, could come into operation. It was firmly stated, however, that wage policy could not replace labour controls "as a means of implementing planning decisions, particularly in the prevailing conditions of inflationary pressure". The general conclusion was that planning would have to be limited to influencing the economy through gradual changes; this required a long-term approach, using mainly financial instruments once the immediate shortages were past.⁽¹³³⁾

In pressing these financial policies it seems clear with hindsight that members of the Economic Section and the Treasury were trying to see over the horizon rather than concentrating on the problems immediately in front of the government. Arguably, the financial policies that were advanced could not have worked in the existing circumstances. Certainly, they required the government to scale down some of its political objectives, particularly those that involved heavy public investment. Outside critics such as Harrod advocated this latter course, and inside advisers were more or less explicit about it. Certainly, one does not find that economic advisers told ministers that they should establish a firm hand over fuel and steel allocations although the signs that crisis was brewing in these areas were clear, and the government later had to act. Instead, the argument that market forces should be re-established as soon as possible grew stronger as the problems grew greater, albeit this view was clothed in some of the jargon of planning.

It would be wrong, though, to suggest that ministers really wanted to strengthen controls but were somehow prevented from doing so by officials. Their lack of determination on this point was shown as early as the Autumn of 1945, and they were probably afraid that a firmer use of controls would be a politically unpopular move, which was undoubtedly true in the case of labour controls. In the 1945 election campaign economic

planning had been sold as an expansionist policy which would be used to carry through reconstruction plans. In terms of the analysis presented in the 1946 Economic Survey, however, there was a trade-off between the scale of the armed forces and the general labour available for manufacturing and building. Events proved that the optimism which followed the January 1946 decision to speed up demobilisation was not justified, but the government did not switch its effort to reducing total demand or ensuring orderly distribution. To the extent that the government retreated from cutting the armed forces, as it did, then effective economic planning required that conflicts between domestic objectives be resolved by some combination of scaling down other programmes and tightening controls. If this was not done, the government clearly risked the possibility of haphazard distribution. Possibly they preferred to take this risk rather than make further unpopular restrictive moves. The risk did not seem as great at the time as it does with hindsight because of the strong belief - common to most ministers and officials - that recession was imminent. The consequences of advocating the replacement of controls by financial policies and ignoring the warning symptoms of inflationary pressure would have been less drastic if this expectation had been proved correct. As it was, the failure to prepare against possible crises was particularly disastrous in the short-run.

CHAPTER 3 - REFERENCES

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- (13) CAB 124 689
- (14) CAB 124 687
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- (27) CAB 71 19 LP(45)30, 31/8/45
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- (61) CAB 134 503 MEP, 1946
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- (84) CAB 71 19 LP(45)32, 13/9/45
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1947: THE ECONOMIC SURVEY AND THE FUEL CRISIS

The publication of the Economic Survey for 1947⁽¹⁾ was intended to be a great step forward in the policy of economic planning. Its keynote was the need for co-operation between the public and the government in the achievement of economic aims, and the government hoped that it would be the start of the democratic planning which the Labour Party had been working towards since the 1930's. In deciding to publish it, ministers evidently hoped that the worst uncertainties of the transitional period were past, but they were clearly taking a considerable political risk, given that they knew about the internal and external problems that were brewing. In the event, two major setbacks - the fuel crisis in February and the convertibility crisis in August - caused the Economic Survey to be abandoned as a practical basis for planning in the course of 1947. Paradoxically, though, the crises forced the government into more effective economic planning in the short-term. A wave of emergency planning followed each of the crises as the government adjusted objectives, formulated priorities, constructed new policy-making machinery and tightened up the operation of control systems in a way that it had avoided doing in 1945-6. This chapter deals mainly with the discussion around the Economic Survey and the emergency planning that followed the fuel crisis, and also attempts to assess opinions about economic planning in various policy-making centres after the fuel crisis but before the convertibility crisis. During the first half of 1947, as well as coping with the fuel crisis and its after-effects, the government was growing more concerned about the balance of payments as the date of convertibility approached and it became evident that there was an accelerating outflow of reserves. This threatened a crisis which ministers compared in their minds to that of 1931. The way that this possibility was

dealt with, and the response to the convertibility crisis itself, is dealt with in the next chapter.

I

The procedure for making the 1947 Economic Survey was much the same as that pioneered in 1946. The initial document was drawn up by the Economic Section, and was then discussed by departments and the official Committee on Economic Development, before being sent to ministers with a number of 'planning considerations'. The Ministerial Economic Planning committee was responsible making specific proposals to the Cabinet. With more at stake than in the previous year, the Cabinet's discussions were fuller and more controversial. The government believed that it now had to take account of a new situation: because reconversion was largely complete, the expansion of civil and export employment which had been in progress since early 1945 was coming to an end. The officials predicted, in their 'planning considerations', ^{that} "the economic problems of 1947 are likely to be dominant in 1948 and probably in 1949".(2) As in the previous year, the preliminary work on the Survey had revealed 'gaps' which could be stated in terms of national income and expenditure or labour and raw materials. In labour terms, the gap was expected to stand at 630,000 workers by the end of 1947, unless some policy changes were made. As the officials put it, this was due to 'trying to do substantially more than is within our present capacity'.(3)

To expand briefly the officials' diagnosis of inflationary pressure, attention can be drawn to three underlying causes which were identified. First, more resources were being set aside for defence and exports than before the war. Second, consumption demand was higher than before the war as a proportion of national income, for a number of reasons: full employment, minimum

standards supported by subsidies, higher rates of national insurance benefits and pensions, and redistribution of income through taxation. Thirdly, there were fewer resources than before the war due to a shorter working week, less efficient capital equipment, and fewer imports. Despite a higher overall level of economic activity, the 'over-burdening' of the economy in all these ways showed in inflationary demand in almost all sectors, but most significantly in consumption goods. The inflationary pressure was exacerbated by the wartime savings 'overhanging' the markets for consumption goods. Moreover, the effect of subsidies was to allow incomes to push up the prices of unsubsidised goods. The difficulty of finding goods on which to spend any extra earnings was again mentioned as a disincentive to increased productivity. However, no explicit recommendation was made to end subsidies at this stage.(4)

Finding means to increase supplies remained, according to the officials, 'the most satisfactory way of bringing demand and supply more closely into line'. As in 1946, the option of borrowing more from abroad to increase the volume of imports was strongly discouraged. The officials saw more hope of increasing the total labour force by attracting more married women and foreign workers into the labour force, although the use of foreign workers where they were needed depended on the provision of more housing, which was a special problem in itself. There was also the possibility of increased productivity, but no rapid solution to the general problem of inflationary pressure could be foreseen coming from this direction. Mechanisation would take time, and insofar as it could not be met from imports it would require the use of scarce labour and materials, lowering the amount available for consumption or exports. So, 'while labour is short, the manpower which we can afford to set aside for the production of capital goods is

limited ... Any immediate increase in productivity ... must mainly come through more efficient management, better deployment of labour, and more intense activity on the part of the worker in industry, using existing plant'.⁽⁵⁾ Even so, optimism about the prospects for short-run gains in productivity played an important role in the subsequent discussions about how much the government had to do to close the inflationary gap.

On the assumption that supplies would remain severely constrained, the officials tried to direct ministers' attention to the problem of reducing overall requirements and deciding between competing claims. As in 1946, the importance attached to increasing exports meant that it would be 'probably unwise' to make any deliberate cut in the export target, because of the need fully to restore the balance of payments before the dollar loans were exhausted; pressure of demand in the domestic economy might reduce exports anyway. Given the inviolability of the export target, 'If...military demands cannot be reduced, the choice is between cuts in consumption and cuts in investment'. So, the options for reducing demand centred on the domestic economy; all of them were unpalatable in varying degrees. If consumption had to bear the whole brunt of closing the gap, then standards would fall below the current level, and textiles would probably suffer particularly badly. If the cuts fell on investment, there would be more complex consequences. Investment was divided roughly into building on the one hand, and metal and engineering industries on the other hand. If the cuts fell on building, the housing programme (which occupied about half the building workforce) would be severely affected. If it fell on metal and engineering then it would be necessary to contract the metal and engineering workforce while maintaining the same level of exports, raising the proportion of the workforce in those industries engaged in producing for export. In this latter case, apart from

the possibility of temporary unemployment and losses to the workforce (e.g. married women withdrawing to the home), there were implications for both domestic industrial re-equipment and the future structure of exports. The officials noted that, even before any policy actions, the government was mainly relying on an increase of engineering exports to sustain and raise the total volume of exports in 1947. Moreover, if the whole of the 'gap' were to be resolved through a cut in metal and engineering products going to the domestic market, the exports of those industries would have to be further increased if the overall export target were to be reached, since an unchanged level of domestic clothing and other textile consumption would probably cause a reduction in textile exports.⁽⁶⁾ Finally, any restriction of metal and engineering products going to the home market would postpone investment, and would entail close inspection of investment projects. The officials suggested that priority could go to those projects which used least labour and would most quickly lead to labour saving, but there could have been few illusions that this would be easy to achieve in practice.

Given these uninviting options, the officials reserved their strongest words for the 'central problem' of bottlenecks in coal, steel, electricity, timber and cotton textiles. Shortages of these goods threatened the whole programme of economic rehabilitation, and constituted 'an additional reason for some substantial pruning of investment programmes since the industries producing metal and engineering products are particularly large users of steel and power, while industrial building is also a consumer of steel and timber'.⁽⁷⁾ It was pointed out that these key material shortages meant that the allocation schemes operated by the government were still very important: to maintain distribution, to prevent price inflation, and as 'a potent influence in determining the general shape of the economy'. Since

'manpower shortage and particular material shortages are often closely correlated', it was recommended that the government should reduce the allocations of scarce materials in areas where there were also acute shortages of labour. The main example, left unstated in the recommendations, was the building programme, which was chronically short of both labour and materials. Two further points were made to underline the undesirability of bottlenecks. First, any shortfall in resources might result pro rata, in reduced exports as well as reduced deliveries to the domestic market: 'For example, if the proportion of motor-car exports remains unchanged, a shortage of sheet steel will reduce exports to an extent greater than we may desire'. It followed that if shortages developed then export agreements might require revision, since these were ratios of output rather than absolute targets. Second, there was the problem of equity in the treatment of different firms. In wartime the most efficient firms in an industry had been selected for important tasks. In post-war conditions, the officials pointed out, there was 'a tendency on the part of industry to expect, and on the part of departments to apply, a doctrine of equality of treatment'. Therefore they wanted to know whether 'preference be given to one firm as against its competitors when there is enough labour to enable one firm's project to be complete quickly while, if all started together, none would be achieved without undue delay?'. The implication was that the government would suffer criticism either because of undue delay or because of discriminatory policies. Only the disappearance of bottlenecks could obviate these possibilities, and in their 'planning considerations' the officials made it clear that this would require the government to stop trying to do too much, particularly in the field of public investment.

Ministers were, then, given a diagnosis of economic problems as precise as the existing state of knowledge

allowed, and it was made plain that there was a need to do something decisive about reducing demand if, as seemed likely, supplies could not be substantially increased. At first there appeared to be an acceptance of the officials' view. Morrison's political adviser, E.M. Nicholson, commented that the previous idea of the transition period as a prelude to equilibrium had been proved wrong: even after reconversion the economy needed a 'strong dose' of new short-term adjustments.⁽⁸⁾ Cripps stated that the Economic Survey report had underlined the main difficulties.⁽⁹⁾ The Ministerial Economic Planning committee, responsible for the 'oversight' of economic planning, produced a set of proposals which were presented to the Cabinet, by Cripps,⁽¹⁰⁾ as 'a concerted plan' of 'interdependent proposals', including proposals for holding back projects as well as for increasing the labour supply. In introducing these ideas to the Cabinet, Cripps stressed that it was urgent to consider what should be curtailed or postponed because of the 'great and increasing gap' between requirements and resources. In particular, to reach the export target it might be necessary to divert some consumer and capital goods from the domestic economy. From the records of the subsequent Cabinet discussions, however, it appears that there was a stubborn hope of finding some way to increase supplies, and a corresponding reluctance to make cuts in programmes. Moreover, the Cabinet did not like the proposals for increasing supplies which were produced by the MEP. In fact, after five Cabinet meetings, all the main proposals of the MEP for increasing labour supplies had been rejected, without any clear alternatives for achieving the government's economic objectives being agreed.⁽¹¹⁾ This situation came about partly because of scepticism about the realism of the figures in the Economic Survey report. Critics argued that the picture painted was too gloomy, and that errors in the Survey could exaggerate the consequences of not adopting the

MEP's recommendations. (It will be recalled that the MEP itself had criticised the 1946 Economic Survey report for exaggerating the manpower gap, a view which led to the shelving of the proposed review of investment programmes).(12) There was also the suggestion that productivity increases could close the gap to some extent, without the need for government action. Of course no-one could say how much error there was in the report, or how much productivity might increase; the real significance of these arguments was that they fitted in with a desire on the part of various ministers to oppose the measures from the point of view of their departmental interests.(13)

The MEP's main proposals for increasing the supply of labour were to postpone the raising of the school leaving age, to introduce non-military National Service for women, to make further cuts in the armed forces and to halt the expansion of civil service and local authority manpower. Postponement of the raising of school leaving age was opposed as inequitable and short-sighted, hitting working class parents and delaying both the introduction of an equitable education system and the long-term economic benefits of a better-educated workforce. This proposal was therefore rejected. Non-military National service for women was proposed as an economically useful form of 'equal treatment'. Wartime experience had shown, however, that direction of women was very unpopular, particularly direction away from home. The proposal was not rejected out of hand, but after further consideration it was agreed that the scheme which would be least unpopular would contribute little to the economy.(14)

The most important and controversial of the MEP proposals was that a ceiling should be put on the size of the armed forces and supply industry manpower. After a review the Ministry of Defence had come to the conclusion that it required 1,167,000 people for the armed services

and 450,000 for the supply industries.⁽¹⁵⁾ This was above the targets agreed at the beginning of 1946,⁽¹⁶⁾ and a sharp argument was provoked. Dalton, strongly in favour of reducing the armed forces more quickly, said that there could be no doubt that a cut in the size of the armed forces and supply industries would have immediate effects on output, and this justified some weakening of the armed forces. The service chiefs were nevertheless adamant that the post-war 'police' duties of the military could not be carried out with smaller forces. After discussion, Dalton suggested a compromise figure of 1.5m for the combined manpower of the armed forces and supply industries, but Attlee concluded that the balance of the argument lay with the Ministry of Defence case, though he accepted that this meant continuing manpower shortages.⁽¹⁷⁾

Of all the MEP's proposals, there was general agreement on only one: that an attempt should be made to reduce the size of the civil service, in which there had been a trend of expansion since the war. Subsequently Attlee initiated a special enquiry in which departments were asked to justify the size of their staffs. There was also concern about the expansion of local authority manpower, which was mainly due to extra tasks undertaken as a result of central government policies. On this point it was also agreed that something should be done, although the ways to influence local authorities' recruitment policy were limited, and the implementation of various policies might be affected if any restrictions were successful.⁽¹⁸⁾

The Cabinet's rejection of the MEP's proposals was so sweeping that it had to be asked whether it would be advisable to publish an Economic Survey at all, since it would be embarrassing if it was not possible to present clear ideas about how to close the gap. On another view, though, the disclosure of difficult facts would provide the basis for appeals for increased

productivity, wage restraint and longer working hours (at least, shorter working hours, such as the miners were demanding, could be resisted).(19) It was finally agreed that the Economic Survey should be published, and there was some further discussion on ways to reduce the amount of labour in non-productive occupations, which allowed ministers to give vent to their feelings about people working in occupations they regarded as unpatriotic, such as sport, entertainment and distribution. The MEP was asked to look further at this, and to consider restrictions on mid-week sporting events, which were thought to be causing absenteeism as well as diversion of labour and materials from projects of national importance.(20)

The government rejected the advice in the Economic Survey report that it should direct its attention mainly to bringing requirements into line with supplies. In essence, if Dalton was correct in maintaining that a cut in the armed forces and supply industries was a measure that could guarantee an immediate expansionary effect, then the government had dodged the issue of whether to reduce its foreign policy commitments or its domestic aims such as the housing programme. Small wonder that Nicholson wrote to Bridges, towards the end of the Cabinet's discussions of the Economic Survey, that there was "a great danger that ministers may go forward with the illusion that they are undertaking economic planning when they are not in fact ready to take any decision which would make economic planning possible".(21)

In the end, much was left to the possibility that short-term productivity increases would close the inflationary gap. This was something which was not under the government's control, and figures on overall industrial productivity for 1946 had been called 'disturbing', although not much reliance could be placed on such estimates. Changes in productivity have always been difficult to quantify, and the difficulties were

greater than usual during the transitional period.(22) So, there was room for a wide range of optimism and pessimism about the outlook. There were certainly some influential optimists: in April 1947 Meade circulated a report by private consultants that had 'startling' conclusions about all kinds of inefficiencies that could be eliminated by, for example, better O&M techniques.(23) Others were more cautious, pointing out that productivity had historically risen at a lower rate than would be required to overcome the existing problems. The official Committee on Economic Development took a particular interest in Rostas's estimate that productivity had increased faster in the US than in the UK between 1938-46.(24) This reinforced the worries of some senior officials, though as it turned out productivity on average rose much faster after the war than it had done between the wars.(25) Indeed, it later became apparent that there had been a better than expected increase in productivity during 1947.

This does not alter the fact that the government failed to decide on measures adequate to close, in real terms, the inflationary gap which officials predicted on the basis of existing knowledge. It is pertinent to ask whether there was subsequently any new emphasis on financial measures against inflationary pressure. Meade started advocating the need for a disinflationary budget surplus and the building of a fund for use in the event of a recession during 1946, and his ideas were discussed again during the 1947 budget policy discussion.(26) During the period of reconversion Dalton had been sceptical about financial calculations of the inflationary gap, preferring to err on the side of inflation, keeping it in check with controls, and taking the view that the only adequate solution to inflationary pressure was to produce more goods.(27) But, perhaps because the possibility of quickly increasing supplies was remote, Dalton did write in the internal discussion

that he wanted the 1947-8 budget to show a surplus if possible.(28) Indeed, Dow suggests that Dalton has been unfairly criticised for being un-Keynesian in this period.(29) While Dalton's attitude appears to have been changing, there were other obstacles to a Keynesian use of the Budget to combat inflationary pressure. There was the continuing hope of some senior Treasury officials that budget policy could be kept apart from general economic policy. Thus, during the 1947 budget discussions, Bernard Gilbert accused Meade of wanting to "carry forward" the 1947 Economic Survey in the Budget. "My own feeling is that global planning is under a cloud at the moment", wrote Gilbert.(30) He also opposed the idea of a long-term financial survey covering the years 1947-9.(31) He did advocate a reduction of subsidies, which was one component of a disinflationary financial policy aimed at restoring the operation of the forces of the labour market in particular. But this was well within the traditional approach to budget-making: subsidies had risen dramatically since the end of the war, and threatened to prolong the period of budget deficit, or require an increase in taxation simply in order to balance revenue and expenditure. On another occasion, however, Gilbert wrote that the Budget Committee was working along Meade's general lines,(32) so his opposition was qualified. Rather than any opposition from officials, the most important obstacle to a budget surplus was the government's manifest reluctance to reduce its demands on real resources, while at the same time wanting to avoid the unpopularity, and the practical problems, of reducing private expenditure. In the wake of the failure to find means to close the 'real' gap revealed in the 1947 Economic Survey, there was no possibility of compensating by the use of the Budget. The Budget eventually gravitated to the centre of economic policy during Cripps' Chancellorship, when conditions were very different. As it was, events

dictated a tightening of direct controls, albeit belatedly, and it is hard to imagine that financial policies could have taken the main strain of inflationary pressure in these circumstances any more than they could have done in wartime.

One proof of this is the impact that the fuel crisis made on the Economic Survey even before it was published. The crisis began after the main discussions which have already been described, but before it was due to be published. In order not to delay publication it was agreed that the arguments should be qualified rather than altered. The discussion around the interlinked targets of coal and steel illustrates the difficulties. The original figure of 200m tons of coal suddenly seemed unrealistically high, as did 13m tons of steel. It seemed more likely that only 180m tons of coal would be raised in 1947, but if this target was revised, all the figures based on it also had to be altered, including the long-term coal target of 230m tons by 1950. Moreover, anything less than 200m tons would not allow stockbuilding during 1947 sufficient to avert the possibility of another crisis in the winter of 1947-8. The upshot of the discussion was that the 200m ton target should stay, and the target for the size of the mining workforce was increased to 730,000. The export target was reduced, however, from 150% to 140% of the 1939 volume, and the allowance for borrowings from abroad was increased from £250m to £350m.⁽³³⁾ These changes are perhaps the most eloquent proof that the officials had been correct to stress, in their 'planning considerations', the likelihood that supplies would continue to be constrained, although ministers had not been ready to act on their analysis. It required the traumatic shocks of the fuel crisis and the convertibility crisis to galvanise the government.

II

Emmanuel Shinwell, Minister of Fuel and Power, may have been speaking the literal truth when, in the Autumn of 1946, he made his famous remark that everyone was expecting a fuel crisis except him.⁽³⁴⁾ The Lord President's committee papers for 1946 show that the government were well aware of the danger. Shinwell chose to take a rosy view of prospects. While others were canvassing the idea of a compulsory winter fuel-saving scheme (this was supported by some ministers, the FBI and the TUC), he insisted on a voluntary scheme.⁽³⁵⁾ The difficulties of compulsory fuel allocation were admittedly great, as subsequent events showed, but Shinwell's attitude was based on an optimistic view of the trend of coal output rather than on the problems of reducing demand.⁽³⁶⁾ In the Autumn of 1946, in anticipation of a 4m ton winter shortfall in coal supplies, there was an investigation of the state of preparedness for selective cuts. The reply came back from the Ministry of Fuel and Power that the machinery for fuel allocations was in good order. But it was not until early January 1947 that the Cabinet thought it necessary to do anything about implementing cuts.⁽³⁷⁾ This was another example of the government's general reluctance to take the unpopular course of restrictions on demand, in this case reinforced by Shinwell, whose hesitations Gaitskell characterised as going beyond the 'natural prudence' of a politician avoiding unpopular decisions, amounting instead to 'sheer weakness and moral cowardice'.⁽³⁸⁾

The first sign of danger came on February 5th, when the Ministry of Fuel and Power informed Attlee that freezing conditions had prevented the transport of coal in several areas.⁽³⁹⁾ This was significant because low overall stocks had led to an increased reliance on being able to transport coal to deficit areas at short notice.

In this situation, power station operation was more or less immediately threatened. When Shinwell made his famous 'Friday afternoon' speech on Feb 7th, stocks in places like London were down to a few days.⁽⁴⁰⁾ As the extent of the crisis became clear, the government set up a Fuel Committee chaired by the Prime Minister. This was seen as being similar to the wartime 'Battle of the Atlantic' committee which dealt with both long and short-term aspects of the U-Boat crisis.⁽⁴¹⁾ At the first meeting of the Fuel Committee on February 12th Attlee presented a characteristically brief memorandum about the possible means of avoiding a similar crisis the following winter. This went through the problems of the supply side: increasing labour supplies by drafting in foreign labour; providing better accommodation for miners; increasing productivity by means inducements (by higher wages if necessary, and better supplies of consumer goods); developing substitutes, especially by conversion from coal to oil. The Prime minister suggested that if the mining labour force could be built up to 710,000 by May, this would allow the maximum use to be made of the Summer period for stockbuilding.⁽⁴²⁾

Another economic problem brought to the forefront by the fuel crisis was the need for more electricity generating plant. It had long been known that the demand for electricity was outstripping the nation's generating capacity. As Wilmot wrote in a note on the problem dated 18/2/47, this was a problem which required a long-term plan. There was an immediate need to place orders for the 1950-1 power station programme. There were various difficulties with the current programme such as conflicts over export orders and delays in the preparations of sites for power stations. Lack of housing for workers was another problem. There were implications for the allocation of coal and steel if the programme was to go ahead at full speed.⁽⁴³⁾

Another major aspect of the problem was transport.

The first symptom of the fuel crisis was a breakdown in transport. One indication of the unpreparedness of the government is that in the first few days there was fury about the tardy response of the Railway Executive in cutting passenger traffic to give priority to coal traffic. Attlee had to write to the controllers of the railways: 'I was shocked this morning at the apparent failure of the Railway Executive Committee to realise the full gravity of the present emergency'.⁽⁴⁴⁾ Alfred Barnes, the minister of Transport, wrote a letter lambasting Shinwell.⁽⁴⁵⁾ When tempers had cooled, it was realised that there were simply not enough locomotives and wagons to move the quantities of coal that were required. More transport was necessary to distribute coal so that any interruption would find power stations and other users with good levels of distributed stocks, rather than large piles of coal at the pithead. Creating short-term priorities in rail traffic was no solution: later, Attlee's adviser Gorell-Barnes informed him that, 'There can be no doubt that last winter the rail embargo of non-coal traffic caused a great deal of dislocation to industry - more, probably, than anything else except the actual electricity breakdown in February'.⁽⁴⁶⁾ It could be foreseen that the situation would get worse over the coming years; even if the mining industry lifted the coal the government wanted, there would be difficulties while the capital equipment of the railways deteriorated.

On the demand side of the problem the Prime Minister proposed that the main aim of the coming fuel-saving campaign should be to curtail the use of electricity by 'domestic and non-industrial' consumers. Plans would also have to be made to reduce the use of coal by industrial consumers, but the uncontrolled growth in the domestic use of electricity, for space heating and cooking, was regarded as a very weak spot in the government's fuel and power strategy.⁽⁴⁷⁾

Table 2. Total sales of electricity in Great Britain, 1938, 1945-51

(Thousand million kilowatt hours)

	<u>1938</u>	<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>
Total.....	20.4	31.3	34.8	35.9	38.8	40.9	45.5	50.5
Industry...	10.3	17.7	17.6	17.6	19.1	20.4	22.9	25.3
Domestic... and farms	5.4	8.8	11.7	12.7	13.6	13.7	14.9	16.9

Source: Mitchell, B.R. & Jones, H.G. Second abstract of British historical statistics, 1971, p.71

To solve all these problems required some fundamental rethinking of the planning effort. Attlee's criticism was blunt: "one of the chief gaps in Government machinery during the first 18 months after the war has been the lack of any organisation to see that, even when decisions were taken to put first things first, these decisions were made effective".⁽⁴⁸⁾ Arguably, part of the reason for this failure was that the Prime Minister's authority was not used sufficiently from the start in economic policy-making.⁽⁴⁹⁾ The fuel crisis marked the beginning of a new stage in this respect. The Prime Ministers' List of priorities for the expansion of fuel and power resources was drawn up to 'put first things first',⁽⁵⁰⁾ and new machinery was set up to make the policy effective. Attlee's directive stated that allocations of labour, materials and other essential supplies, including building and civil engineering work, should help as far as possible:

- (1) Electricity generating plant required by electricity undertakings.
- (2) Machinery and equipment for deep-mined and open-cast coal.
- (3) Plant and equipment required by gas undertakings.

(4) Equipment for the coal/oil conversion programme.

(5) Freight locomotives, railway wagons for transport of coal, and steel rails for essential maintenance of the permanent way.

This list, known in Whitehall at the time as the PML priorities, was approved by the Cabinet on 18/3/47. Atomic energy projects were added to the list later.⁽⁵¹⁾

To ensure that the policy was carried out a progressing organisation was set up in the Ministry of Supply, following Attlee's concern that the ministry of Supply had effectively divested itself of any responsibility for civil production.⁽⁵²⁾ The Fuel Committee also agreed that 'progressing offices' should be put into plants making mining machinery, similar to wartime practice in crucial areas like aircraft production.⁽⁵³⁾ Of more wide-ranging importance was the establishment of the Central Economic Planning Staff, headed by a Chief Planning Officer. The proposal for such a staff had first been advanced in November 1945,⁽⁵⁴⁾ but it took the fuel crisis to bring it into existence. This was because, as Bridges wrote: "Programming work required for fuel, power and material allocations ... will give rise to a heavy volume of work which will have to be handled centrally".⁽⁵⁵⁾ CEPS was initially intended as a central 'progressing' organisation, to ensure that cabinet economic policy decisions were carried out, especially the items on the Prime Minister's List.⁽⁵⁶⁾ As such it was at first regarded as a temporary organisation, but it grew in importance, especially after the convertibility crisis, when the volume of central programming work increased again.

Another important piece of central machinery set up after the fuel crisis was the Fuel Allocations Committee, an official committee chaired by a junior minister, Hugh Gaitskell (who had already distinguished himself in handling the day-to-day problems of the fuel crisis).⁽⁵⁷⁾ Its function was to break down the global fuel

allocations made by the Fuel Committee into very detailed decisions. This meant, for example, giving priority to an ICI Alkali plant and cutting back on iron and steel production in the case of a special scarce grade of coal.(58) The value of having a minister to head this kind of committee was that decisions could be made on the basis of an immediate authoritative interpretation of the government's policy. The ability to do this was very important, given the growing complexity of priorities which economic policy machinery was expected to handle. The Fuel Allocations committee became the pattern for the Export Committee set up after the convertibility crisis (chaired by Harold Wilson), and also for the restructuring of the Materials Committee (also chaired by Gaitskell in the first instance).

As with many planning problems, drawing up an outline for action and setting up new machinery was easier than executing the policy, as shown by an examination of some of the activity which followed the initial planning. This can be divided into problems of supply, of which the chief was to get a larger and more productive mining workforce, and problems of demand, which involved trying to cut down non-industrial use of power and preparing fuel allocations for the following summer and winter.

Table 3. Coalmining labour force in the U.K.,
1938, 1945-51

(Thousands)

<u>1938</u>	<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>
781.7	708.9	696.7	711.4	724.0	719.5	697.0	698.6

Source: Mitchell, B.R. & Jones, H.G. Second abstract of
British historical statistics, 1971, p.67.

It is very interesting that after all the tribulations about coal supplies, there was still a degree of

scepticism about the difficulties of increasing supplies, on the part of those getting directly involved in the labyrinth of mining problems for the first time. Attlee suggested the simple application of 'wartime spirit' to overcome the problems.⁽⁵⁹⁾ Only reluctantly was it accepted that the scope for expanding coal supplies was limited. At first it was assumed that Shinwell had not put enough effort into the task. Not that Shinwell was the only person to come under critical scrutiny: a disbelieving assessment was made of the view of Lord Hyndley, chairman of the National Coal Board, who held that there was a limited rate at which new coal face-room could be created (which, if true, was bound to limit the effectiveness of new labour, if it could be found).⁽⁶⁰⁾ However, after some argument it was accepted that there was little hope of greatly increased supplies of coal in the short-term.

After the first few weeks, in fact, the government's effort concentrated on a more defensive task, that of preventing a fall in output. Central to this effort was the government's relationship with the National Union of Mineworkers under its Communist leader Arthur Horner. In March 1947, following a request from Horner, it was agreed that a delegation of miners should attend a meeting of the Fuel Committee to submit their proposals for the industry. Gorell Barnes noted that this meeting was expected to be 'one of the most crucial for the whole future of planning and of the country'.⁽⁶¹⁾ At this 'crucial' meeting the miners pressed for a whole series of reforms, of which the most important was for a 5-day week. The government was worried that this would lead to a fall in coal output.⁽⁶²⁾ Nevertheless, reforms could not be put off: the miners were well aware of the strength of their bargaining position. The miners were told that most of the demands would be conceded, but they were asked in return that there should not be any fall in output. In July the government began to believe that

things were going wrong: output figures were not good, and there was a suspicion that the miners had gone back on their undertakings on the 5-day week. The writer of one brief for Attlee predicted gloomily that it seemed that there would be 'austerity without end', although he crossed out the observation that 'it may well be the end of the government'.⁽⁶³⁾ During the convertibility crisis the government tried to get the miners to go back on the 5-day week agreement and accept compulsory Saturday working, but this was emphatically rejected. At another meeting with miners' leaders, held the day after the convertibility of sterling had been suspended, Morrison pronounced himself 'cross' at the miners' attitude. It was argued that restrictive practices and absenteeism continued to be a problem. However, the miners were adamantly against compulsory Saturday working.⁽⁶⁴⁾

Table 4. Output of coal in the United Kingdom, 1938, 1945-51

(million tons)

<u>1938</u>	<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>
227.0	182.8	190.1	197.4	209.4	215.1	216.3	222.9

Source: Mitchell, B.R. & Jones, H.G. Second abstract of British historical statistics, 1971, p.66.

In these circumstances, the possibilities for averting a new fuel crisis depended on reducing requirements and improving distribution rather than increasing supplies, though the government still aimed to reach the Economic Survey target of 200m tons, which was regarded as the minimum for safety.⁽⁶⁵⁾ In fact, on coal supplies the government came back more or less to the same point that had been reached the previous Autumn, but it now planned to control the demand side of fuel and power adequately, whereas it had previously failed to. As already

mentioned, the demand side operation fell into two main parts: first, an effort to reduce coal and electricity consumption by domestic and non-industrial consumers; second, restricted coal allocations to industrial users for the summer period, in order to build up stocks. Each was a complicated task.

Rationing the use of fuel by non-industrial consumers was very difficult, involving such delicate questions as whether the rich should get a larger ration because they had larger spaces to heat in their houses than the poor in theirs. One of the worst political rows of the war had been caused by a proposal to ration fuel, which was never implemented, technically on the grounds that the government might be unable to guarantee the ration.⁽⁶⁶⁾ After the fuel crisis, despite a lengthy internal discussion, the Cabinet decided not to adopt any compulsory fuel rationing scheme for non-industrial users.⁽⁶⁷⁾ The other main aspect of the problem of domestic and non-industrial consumers concerned their escalating electricity consumption. The possibility of future winter crises was as much linked with a shortage of generating capacity as it was with a shortage of coal output.⁽⁶⁸⁾ During the fuel crisis industrial consumers of electricity were cut off first, because many of the latter depended on electricity for space heating and cooking. Moreover, it was important to try to reduce domestic consumption of electricity in the summer of 1947 as a contribution to coal stock-building. Once again the problem was what kind of scheme was possible, the problem being that of enforcement rather than equity in this case. How could domestic consumers be 'policed' to make sure that they did not consume more than a certain amount of power? Compulsion was again rejected. Instead a voluntary 'Fuel Target' scheme was attempted.⁽⁶⁹⁾ Judging from the results of a survey conducted by the Ministry of Fuel and Power later in the year, this was not very successful. Housewives interviewed after the

campaign knew little about relative rates of consumption of electricity or gas by different appliances; they tended not to read the information sent out by the government, and often did not know how to compute the target they were being asked to aim at. Very few were able to read their meters correctly.⁽⁷⁰⁾ 'This aspect of the fuel economy campaign was an extremely poor effort', commented CEPS. The government had little success in trying to influence the behaviour of domestic consumers.

Attlee had originally hoped that most reductions of consumption of fuel and power could be made to fall on non-industrial users, but this proved impossible. The question therefore arose of the basis to be used for making summer industrial allocations that would allow the building of adequate stocks for the winter of 1947-8. A problem which arose out of this provides an interesting example of one of the general difficulties of economic planning using controls and techniques inherited from wartime. The Fuel Committee agreed in April 1947 that the basis of allocations for summer 1947 should be the amounts consumed by industries in the same period in 1946, which on average was calculated to be 86.8% of their current requirements - a case of spurious precision if there ever was one!⁽⁷¹⁾ But in the case of those industries which had been urgently expanded since mid-1946 this basis meant a greater than average reduction from their current requirements. Significantly, the policy would have affected the building materials industry particularly badly, since it had recently been urgently expanded by means of special measures in connection with the housing programme, and it depended to a great extent on the use of coal. The housing programme had already run into trouble, with far more houses being started than could be finished in a reasonable time, because of material and labour shortages. The new fuel allocations threatened to further delay the finishing of new houses, even after the rate of new starts had been

cut down.

There was a strong reaction against the idea of an unselective cut. As the Ministers of Health and Works jointly stated at a Cabinet meeting in late April 1947: 'The effect on the building programme would be disastrous ... the building materials industries ... would be unable to maintain output at the level to which it had been raised; and all the efforts which had been made to bring additional labour into the industries would be frustrated ... it would be difficult to meet the criticism that there was a lack of consistency in the government's economic planning'.⁽⁷²⁾ But if an exception was to be made for the housing programme, why not make a comprehensive 'selective' set of fuel allocations? This was proposed by some ministers, who felt that a uniform percentage reduction in coal supplies to all industries 'might produce widespread dislocation'. 'Would it not be preferable, by a deliberate act of policy, to shut down some industries altogether and reduce the coal consumption of others, so that the essential industries might be assured of their fuel requirements?'.⁽⁷³⁾ In reply, Cripps said that he 'had been satisfied that it would not be possible, in the time available, to work out the intricate details of a selective scheme designed to ensure that the available coal was used to the best advantage in the national interest'. To avoid disrupting the relation of one industry with another, therefore, he had taken as a basis the coal consumption in the summer of 1946, when the 'inter-relation between industries was fairly satisfactory'. He argued that other industries had also been expanded, and that the building materials industries would not fare worse than many others. It was, however, agreed to review the Fuel committee decision,⁽⁷⁴⁾ and a later meeting agreed that the building materials industry should be treated as a special case.⁽⁷⁵⁾

As well as the summer allocations scheme, the

government had to work out allocations for the following winter. This was in stark contrast to preparations for the previous winter, which had been so weak that even if the winter had not been the coldest since 1881-2 there would probably have been some dislocation. By the end of July 1947 detailed plans had been made. Every firm was to be told at the start of the winter what deliveries it could expect, based on its own estimates of full requirements, ignoring its stocks at the start of the period. If there were shortfalls in deliveries then the government would allocate supplies according to the degree of importance attached to the industrial group to which the firm belonged.(76) This scheme required much detailed work by departments and the National Coal Board, collecting estimates of requirements from firms, grouping them, checking the estimates, aggregating the requirements and then setting them against the likely supplies. The scale of the operation can be judged from the fact that over 40,000 industrial consumers requiring over 260 tons had to be supplied from over 1000 collieries whose output varied over long and short periods.(77) Thus, the plan for winter allocations contained contingencies for excess and deficient supplies - the latter being thought more likely.

The problem depended, obviously, not only on whether the weather was mild the following winter, but also on how effective the summer campaign of stockbuilding and restrictions on demand had been, and above all, how mining output held up. In the event, by the Autumn of 1947 it was realised with great relief that the target of 200m tons which had been set in the 1947 Economic Survey would almost be reached. Stocks and transport had also improved considerably. Still, the government was prepared, with detailed winter allocation and transport schemes drawn up in detail, operated by the government in co-operation with the new National Coal Board, with the approval of trade unions and the goodwill of industry.

By the Autumn of 1947 the fear of a repetition of the disaster of February 1947 had faded.(78)

Moreover, electricity supply was another area of policy where the government felt buoyant by the Autumn of 1947. In March 1947 Attlee had called a special meeting with the manufacturers of Heavy Electrical Plant to impress on them the urgency of the situation.(79) By September Wilmot was able to inform Attlee of two milestones: first, standardisation of turbo-alternator sets 'in place of individual specifications for every plant'; second, an arrangement for the Ministry of Supply to allocate orders among manufacturers to secure maximum use of capacity. Further standardisation was in hand.(80) This was at least one step towards meeting the criticism frequently made, that the government did not do any long-term planning.(81)

The government moved decisively to head off the possibility of another fuel crisis, with some success. The significance of this more determined attitude was that the policy of extending wartime methods of economic planning into the transitional period was at last being implemented rigorously, despite the unpopularity that might result. During the first half of 1947 this new firmness was also being applied to other areas of economic policy, an approach which was welcomed by the leaderships of both sides of industry. The Federation of British Industries, one of the two major employers' organisations, wrote to the Prime Minister in March 1947, outlining their views on the economic situation and the remedies they favoured. The FBI saw inflationary pressure as the main problem, but responded with a call for more and better planning: a tightening of the priorities system, better co-ordination at the centre, allocations systems that really worked (e.g. in steel), measures to break transport and power generation bottlenecks, and resolution of the conflicts between capital goods exports and domestic re-equipment. On

economic controls, the FBI wanted simplification, but not abolition. On taxation, it wanted a shift from direct to indirect taxes.(82) In light of all the problems that the government had gone through to get more coal, it is interesting that the FBI called for a target of 220m tons, which can be compared with the 200m tons of the Economic Survey and the 194m tons actually achieved during 1947. The TUC also supported the call for this completely unrealistic figure; evidently ministers were not alone in finding reasons to be over-optimistic about solving economic problems by dramatic increases in supplies rather than cutting back on requirements. The FBI concluded their letter to Attlee thus: "In all that we have said, we have shown that we accept the necessity for our national economy to conform to an overall plan". There was still the crucial question, however, of how the economy could be made to conform to a plan, and in this regard it should be noted that the FBI wanted more 'self-government' by industry, for example in the operation of controls. Also, they urged the government not to press ahead with controversial new legislation (i.e. more nationalisation) at a time of economic crisis.(83)

For its part, the government hoped to establish an understanding about economic planning with both sides of industry through a new tripartite body, the Economic Planning Board. This was designed to work in broad terms, rather than attempting to carry planning down to the level of the individual firm.(84) Nevertheless, the EPB was intended to be an 'executive' body in the sense that all the people on it were influential policy-makers or advisers, and it was hoped that its members would go away and help implement an agreed policy through government departments and in their respective industrial organisations.(85) It was also hoped that the EPB would help the Central Economic Planning Staff to develop a strong working relationship with industrialists. CEPS was designed to co-ordinate the implementation of plans by

departments, and the connection between the EPB and CEPS meant that problems arising in industry, transmitted through the employers organisations and the trade unions, could influence the actions of government through its central organisation.(86)

The theory of the EPB was easier to formulate than to operate, because it was questionable how far the FBI or the TUC had either the power or the desire to act in any executive role in relation to the government's economic planning. As already mentioned, the FBI desired more self-government in the implementation of plans. They were also under internal pressure from some of their members not to co-operate with the government, mainly because of its nationalisation programme. While the FBI leadership thought that it was their responsibility to talk to the government, there were clearly limits to what they would do to enforce government plans. A similar observation can be made about the TUC. The government also held talks with the TUC about the economic crisis in the early part of 1947. On planning generally, ministers assured a TUC delegation that they were trying to get it right, and were attempting to stop departments regressing to the attitudes of 1938 in their approach to economic policy. The TUC wanted to know why there were to be no ministers on the Economic Planning Board, which suggests that they were taking the idea seriously, to the point where they were critical of the government for not making the EPB a stronger body. But it also transpired that the TUC delegation was extremely chary about the idea of discussing wages in any detail in the EPB. They did not want any statement made in the EPB that would commit them, or individual unions, in any specific case of wage bargaining; this kind of attitude no doubt goes some way towards explaining why the ministers were not interested in getting more closely involved.(87)

Thus, the fuel crisis did not lead to a general rejection of planning. Responsible industrial opinion

concluded that the situation called for more planning not less. This was certainly true for the FBI and the TUC. But it is also significant that the FBI and the TUC, like the government, appeared to believe that it was possible to raise coal output very substantially. To the extent that it was assumed that coal supplies could be greatly increased, the need to control inflationary pressure by reducing total demand in real terms was perceived as less than a necessity. It can be observed, however, that it would have been an unattractive move for the FBI or the TUC formally to call on the government to downgrade reconstruction plans such as the building programme, even if they had felt that this was the necessary way to reduce inflationary pressure. Certainly, they chose the more popular course of urging the government to do what they may well have known to be impossible. Furthermore, despite their general support for planning, both employers and trade unions jealously guarded their independence as policy-makers, preferring 'self-government' to the taking of decisions in tripartite bodies such as the EPB. As a result, the EPB remained a consultative body which did not have much influence on the policies of either side of industry.

The most important change in economic planning machinery to come out of the fuel crisis was the formation of the Central Economic Planning Staff, the conception of which strongly resembled the idea of an 'Economic General Staff', one of the main demands of economic policy reformers from the 1920's onwards. As already mentioned, CEPS was set up to 'progress' policy after the fuel crisis, but it eventually played a much more wide-ranging role. The establishment of a Central Economic Planning Staff had been first proposed during the original internal discussions about economic planning machinery in 1945, but the idea was not taken up. Moreover, Morrison explicitly rejected the idea of an 'Economic General Staff' in Parliament as late as

February 1946.(88) The formation of CEPS, which was announced by Cripps on 10th March 1947, was therefore a major change of policy by the government. CEPS had its own staff of economists, and co-ordinated the work of Planning Officers assigned to government departments. The Planning Officers occasionally met as a committee called EP(O)C.(89)

Before CEPS could establish its wider role in economic policy-making, several problems had to be resolved. There was an awkward period after Morrison's illness, lasting until the convertibility crisis, in which the ministerial responsibility for co-ordinating economic policy was unclear and controversial.(90) In the first place there was conflict about where CEPS should fit into the existing central economic policy machinery. The initial idea was that Edwin Plowden, appointed as Chief Planning Officer several months after the formation of CEPS was first announced, should report to Brook in the Cabinet Office. This upset Morrison's adviser, E.M. Nicholson, who had been rejected as a candidate for the job of Chief Planning Officer.(91) Subsequent to Plowden's appointment there was a heated exchange between Bridges and Nicholson about whether CEPS should report to Nicholson in the Lord President's Office or to the Cabinet Office. Plowden threatened to resign if assigned to the Lord President's Office. Morrison thought that Nicholson was being 'persecuted', but perhaps the main significance of this unpleasantness was that the Lord President himself had lost credibility as an economic minister. The outcome was that there was no change in the original plan.(92) There was also the question of the relationship between CEPS and the Treasury. Bridges, in a letter to Plowden, explained that the Treasury would only adopt fiscal measures if they had been agreed with the Chancellor, though the Treasury would certainly co-operate with CEPS by giving expert advice on the relation of physical and financial plans. Bridges also proposed

that Plowden should become a member of the elite Budget committee. In July 1947 CEPS and the Treasury agreed to co-operate in studying 'Economic planning and fiscal measures'.⁽⁹³⁾ Thus, the Treasury remained politely at arm's length from the new machinery of economic planning, until the day when CEPS was absorbed into the Treasury.⁽⁹⁴⁾

The first major task of CEPS was to try to reduce the adverse effects of the fuel crisis on the aims of the Economic Survey. It was also expected to fill in the gaps left by the existing machinery, (i.e. that of the Fuel Allocations and Materials committees). One such gap was the planning of winter transport for 1947-8.⁽⁹⁵⁾ Big problems were anticipated, the solution of which required the kind of administrative apparatus for making transport budgets that had been set up during the war. In a discussion in July 1947 it was minuted: "Departmental organisation for dealing with transport problems had been largely dissolved since the war".⁽⁹⁶⁾ CEPS had to replace it, and in this a key role was played by the 'Planning Officers' in departments, meeting together occasionally as EP(O)C. CEPS also looked in a much more general way at the possibilities of winter shortages, searching for gaps between programmes and supplies.⁽⁹⁷⁾ Departments were invited to inform CEPS about shortages affecting their programmes. One proposal was to keep a detailed 'critical list' of shortages, which would include such things as "fractional HP motors, nipples for bicycle wheels", an idea based on the 'designated list' which had been kept by the Ministry of Production in the later stages of the war.⁽⁹⁸⁾ It was hoped that such a list would be useful to the Ministry of Labour as a guide to filling vacancies. (There were few legally enforced labour controls at this time, but there was still the requirement for workers to seek jobs through Labour Exchanges, which allowed the government to try to steer people into jobs of national importance on a voluntary

basis).

This type of work was necessary because the programmes on which the calculations of gaps and the creation of critical lists were being based were so far out of line with supplies. Indeed, in June 1947 Gaitskell and Le Maitre (the latter was a CEPS economist) made clear their view that requirements and supplies were 'hopelessly' out of line, showing that programmes were running at about twice the level of available materials.⁽⁹⁹⁾ Records of the early work of CEPS show that efforts were still being made to expand supplies in order to close these very wide gaps. For example, CEPS played an important role in a campaign to increase of hours of work, making lists of industries in which this would be desirable. This policy was the natural successor to previous attempts to increase overall labour supplies, the possibilities of which had been more or less exhausted.⁽¹⁰⁰⁾ But here a planning problem arose which highlighted the problems of the 'Empty economy': to what extent might the extra output possible with increased hours of work in one industry be frustrated by lack of output from some other industry? More hours worked in mining would require more explosives; more hours worked in textiles would require more chemicals, and so on;⁽¹⁰¹⁾ any extra hours worked in one industry might simply result in lower productivity unless careful consideration was given to the levels of all its inputs. Thus the pattern of CEPS' work following the fuel crisis provides further confirmation that inflationary pressures forced a partial reversion to wartime techniques, involving the re-establishment of organisation for centralised economic planning that had been prematurely abandoned by departments in 1945-6: not that the government had made any obstacles to this abandonment.

Attempts to reinforce the government's ability to carry through economic planning after the fuel crisis were made against a background of increasing public criticism of economic controls in general. There were numerous stories in the press about bureaucratic restrictions and obstacles to economic activity, many of which were picked up by John Jewkes and included in his book Ordeal by Planning.⁽¹⁰²⁾ Ignoring the realities of the economic situation, critics such as Jewkes (who evidently had learned nothing by the mistakes he had made while he was Lord Woolton's adviser) blamed all problems on planning and controls. At the crudest level, anti-planning propaganda disseminated a grossly exaggerated idea of the number of people engaged in controls. At one point claims were made in Parliament that 2 million people were involved, a figure which included a large number of local authority servants who had little or no connection with central planning. In reply the government produced its own figures, showing a very different picture (see Table 5).⁽¹⁰³⁾ There is room for some scepticism about these figures, because it was sometimes difficult to define a control precisely. Even allowing for some underestimation, though, these figures suggest that the public, if they believed the critics, must have had a grossly inflated view of the extent to which the government was able to control the economy.

Still, the government was responsive to criticisms about the amount of controls; while it could afford to brush off the crudest propaganda, it also had to take account of demands from industry for simplification and reduction of controls. Thus, on the 27th of May 1947, Morrison asked departments if any controls were superfluous, or could be handed over to trade associations. The Board of Trade and Ministry of Supply replied that there was not much scope for handing over

Table 5. Official estimate of government employees engaged in operating economic controls, 1947

Total central government employees: 690,000
(inc. Post Office employees)

RATIONING

Local food offices	32,000
Petrol and Oil	2,650
Clothing and Furniture	<u>2,400</u>
	37,050

ECONOMIC CONTROLS

Building licences and materials	2,000	(Works)
Raw materials - Wool	220	(MAF)
Timber, Flax etc.	3,000	(B of Trade)
Import and export control	500	"
Price control	350	"
Steel	<u>400</u>	(Supply)
	6,470	

Source: Public Record Office, T 230 18

controls to industry. As long as there was any discrimination between firms in operating a control, controls could not be handed over to trade associations. In industries where there was general opposition to controls, the trade associations were unwilling to take them over for fear of criticism. Moreover, in other cases there were major firms in an industry which did not belong to the trade association. (104)

Of more significance than the controversies about the number of personnel involved in the controls or who was to run them were questions of how they could be used to obtain the results required of them and whether they were having any deleterious side effects on economic development. The government remained undecided about how

to use controls in crucial respects. In April 1947, for example, regional controllers asked how material allocations would be used to enforce export targets, and were told that 'HQ' had not yet decided what form of sanction to use.(105) A very important complaint which came through the regional machinery concerned departments' use of economic data from 1938 as a yardstick for material allocations (this was essentially the same problem that had caused problems in the fuel allocations machinery).(106) There were alleged to be problems in the Scottish carpet industry, in which some firms were experiencing demand far above the 1938 level, but they could not satisfy it because they could not get enough raw materials under the current rules. A closely related problem was that of making allocations to new firms appearing in an industry.(107) These were fundamental difficulties with the use of economic controls, which were bound to grow worse in the longer-term. However, there was still no move towards a comprehensive overhaul of the system of economic controls. This was probably because there was still a hope that controls were a temporary expedient; therefore policy was governed by the simple general principle that the government wanted to get rid of controls where possible, while consolidating those that were necessary.

Steel control was one area where consolidation was a vital necessity if the government was to secure its priorities, most importantly those of the Prime Minister's List. The machinery of steel allocation centred on the official Materials Committee, to which departments submitted their requirements for vetting in terms of the government's priorities, and where the reconciliation of requirements and supplies was supposed to take place. But in the course of 1946 it became clear that the allocation system had virtually broken down, due to problems both on the supply and the demand sides. On the supply side, imports of steel were reduced, while on

the demand side there was 'licence inflation'. Although the 'M-form' licensing system provided potentially water-tight central control of the end-uses of steel, departments had authorised steel orders far in excess of prospective supplies - and in excess of the departmental allocations made by the Materials Committee.(108)

In February 1947 the Materials Committee had to make cuts in steel allocations due to losses in steel output caused by the fuel crisis, but this should not be allowed to obscure the fact that steel allocations were already under pressure, and that the fuel crisis was only the particular form in which the general crisis broke out.(109) R.S. Sayers, of the Economic Section, in a note dealing with the problems of coal and steel had made this point, before the fuel crisis, when he stated that the common root of the difficulties was that the government was attempting to do too many 'essential' things.(110) With over-authorisation and inelastic supplies it became very difficult to secure steel distribution according to the government's priorities. There was a backlog of unsatisfied orders which threatened to make the use of steel output in any allocation period haphazard. In addition there was a good deal of suspicion between the government and the steel industry, and especially with the central organisation of the industry, the British Iron and Steel Federation, which was largely responsible for administering the steel control. In short, the Materials committee was not on top of policy; it was observed that the "pattern of deliveries" was being "determined by steel makers and not by the committee".(111) One way in which the government tried to solve the problem of the backlog was simply to cancel it, and the British Iron and Steel Federation sent a letter to all users to do this in early 1947 (14/3/47). Yet the problems of over-authorisation continued and it was necessary to threaten to apply sanctions to laggardly departments.(112) The

minutes of the Materials committee for 1947 show that the problems of 'deflating' the backlog, and stopping over-authorisation were very difficult to solve. A report by Gaitskell concluded that the shortfall would affect the priority programmes agreed in the wake of the fuel crisis.⁽¹¹³⁾ This is not surprising when it is realised that priority programmes were estimated to be taking more than 40% of total steel allocations, putting intense pressure on other users of steel and the allocation system. Priorities always caused problems if they spread over a large part of total output, although Gaitskell thought that by August 1947 the priority machinery was just starting to bite.⁽¹¹⁴⁾ Just after this, of course, the convertibility crisis resulted in a further overloading of the steel distribution machinery, causing headaches well into 1948.

In its handling of fuel and steel allocations, in establishing the Prime Minister's List, and in setting up CEPS the government displayed a new sense of determination to carry through its policy of economic planning. The extent of this change of heart from the indecisiveness of 1946 should not, however, be exaggerated. Indeed, Morrison's biographers characterise the period between the fuel crisis and the convertibility crisis as one of 'drift'. This is clearly inadequate if the efforts of Gaitskell and Attlee himself, following the fuel crisis, are taken into account. Nonetheless, the argument over how CEPS should fit into the central machinery of government has been described already, and the conclusion drawn that it was a symptom of Morrison's decline in authority as an economic minister. Cripps and other ministers were naturally dissatisfied with Morrison's handling of the key economic policy job, and there was also criticism of Attlee's lack of leadership. Donoughue and Jones suggest that the combined stresses of the Economic Survey discussion and the fuel crisis caused Morrison's health to crack. Returning to office after a

lengthy period of rest, he had great difficulty in re-establishing any authority after Dalton and the Treasury had taken over the main responsibility for economic affairs.⁽¹¹⁵⁾ The Lord President's Office had become a backwater, though Morrison was not formally relieved of his economic duties: it was not until after the convertibility crisis that firm central direction was re-established in economic policy.

Meanwhile, Morrison was not disposed to take all the blame for the previous failures. While easing himself back into work after his illness, being released from much of his previous daily grind, he reflected somewhat bitterly on the performance of the government so far. He chose the theme of 'Planning for expansion' for a memorandum which was, especially in its earlier drafts, severely critical of both ministerial and official colleagues.⁽¹¹⁶⁾ His first criticism was that the government as a whole had not committed itself to the goals of planning. He believed that the problems of fuel and power had been underestimated at first; it was only after the crisis that the Fuel Committee was set up, with the Prime Minister in the chair, to deal with long-term 'planning for expansion' as well as short-term control of demand.⁽¹¹⁷⁾ His second main criticism was that officials tended to say that 'everything possible is already being done'. To illustrate both these criticisms Morrison pointed to the success of the world food crisis campaign of 1946. On that occasion, as in the aftermath of the fuel crisis, Attlee had been in charge of policy-making as chairman of the key committee. Consequently, the government as a whole had taken part in the measures to overcome the crisis. Despite official advice that it would be impossible to expand supplies in the way that ministers wanted, it had been possible by concerted action to expand the world grain crop so that the food shortage had been reduced. Ministers had been 'told at the time it couldn't be done', and yet it had been

done.(118)

More criticism came from Hilary Marquand, the Paymaster-General, who was given special responsibility for planning after the fuel crisis and Morrison's illness. He was reproachful that the government had not managed to escape from short-term crises in its economic planning, pointing out the similarities with wartime. During the war there had been one crisis after another: drop forging, internal combustion engines, aircraft and so on. This had led to a 'priority' mentality which had now overtaken the Labour government.(119) Morrison's 'Planning for expansion' memo and Marquand's 'Thoughts' tend to support the idea that the government was in a state of 'drift' in this period. Despite its more resolute approach to the specific problems of fuel and power, and steel allocations, it had no adequate planning strategy, and this was reflected in a rudderless motion from crisis to crisis.

These cross-currents among ministers did nothing to clarify their intentions to officials. Interesting evidence of changes in official attitudes can be found in an exchange of letters in June 1947 between two government economists, Alec Cairncross of the Board of Trade and Ronald Tress of the Economic Section. Cairncross wrote that Plowden had put to him the question "which has been troubling all of us for some time. What is the general philosophy behind the Plan? What is it that we are trying to do and what system of controls is needed to do it?".(120) Cairncross thought the government had three main objectives: "maximum output, high exports and a measure of economic equality". The essence of planning was the construction of the various 'Budgets' used for administrative controls, although there was little idea of what could be done if things did not turn out the way that was set out in the Budgets. Any given control was 'a method of taking some of the sting out of the shortage without necessarily doing much

to remove the shortage itself much less bring the item controlled into line with the overall plan'. Any deterioration of the balance of payments, or any attempt to maintain the level of investment would 'justify the retention of controls which are still regarded as temporary'.⁽¹²¹⁾ Tress agreed with this and could see no definite end to the process. The transition period, it had previously been thought, would be short:

"That view was backed by the national income forecasters, Stone and Kaldor alike, and the view is pretty obvious, for example, in the Employment Policy white paper of 1944. Certainly, when we in the Economic Section first worked out the form of the Economic Survey, we consciously sought to adapt the habits of manpower planning to national income planning, anticipating an early shift from the problems of shortage to the problems of unemployment. Despite the experiences of the last two years, the Civil Service ... still holds (or at least, acts on) that view, with the logical consequence ... we must use what machinery we have, we can't have any new controls and it isn't worth rationalising the whole structure".⁽¹²²⁾

E.A.G. Robinson succinctly expressed the view of planning which was very widely held among administrators and economists when he wrote that as far as he was concerned the main objective of planning was to make planning unnecessary.⁽¹²³⁾ But because the transition period was proving to be longer than expected, Tress was worried that the control system might not be neutral in relation to the "the date of eventual equilibrium",⁽¹²⁴⁾ after which planning would be unnecessary. In fact, the fuel crisis temporarily discouraged the drive towards immediately making financial policies the dominant feature of economic policy, which had been such a prominent feature of official advice in the previous year.

To summarise, the year 1947 began with the discussion of the Economic Survey. The decision to publish it sharpened the Cabinet's discussion about ways to implement the government's programmes, but ministers did not find plausible ways to close the projected inflationary gap by action to increase supplies or decrease requirements. In the end the prospects for closing the gap depended on an imponderable increase in productivity. This never became as clear as it might have done, because no sooner was the main discussion on the Economic Survey concluded than the fuel crisis threw doubt on all its assumptions. The fuel crisis led to three major changes in economic policy machinery. First, special Cabinet committees were set up to deal with the immediate crisis and to develop long-term policies for the expansion of fuel and power resources. Second, the crisis marked the end of the role of Morrison as the chief co-ordinator of economic policy and the downgrading of the Lord President's committee and related committees (including the Ministerial Economic Planning committee). Third, it led to the formation of the Central Economic Planning Staff, which played an important role in economic policy over the next few years. A more determined approach was evident in the aftermath of the fuel crisis, though this did not spread to the running of economic policy as a whole. As for the changes in machinery, it took some time for these to become effective. After Morrison's illness there was jockeying for leadership among the senior ministers, and a period of 'drift' in which ministers criticised each other and the officials. Officials voiced their own doubts about the goals of the government. Meanwhile, another economic crisis was in the making: the convertibility crisis, even more traumatic than the fuel crisis, shook the government into taking the decisions it was still reluctant to face.

CHAPTER 4 - REFERENCES

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- (2) T 230 57 Economic survey report,
Dec 1946, para. 56.
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- (7) T 230 57 Ditto, paras. 72-3.
- (8) CAB 124 897 Nicholson, 7/11/46.
- (9) CAB 124 898
- (10) Cripps took over the leading role in presenting the
Economic Survey when Morrison became ill.
- (11) CAB 128 9 CM(47)7,8,9,10,11 16/1 - 22/1/47
- (12) See above, p.132
- (13) CAB 128 9 CM(47)8, 16/1/47
- (14) CAB 128 9 CM(47)8, 16/1/47; CM(47)14, 30/1/47
- (15) CAB 128 9 CM(47)9, 17/1/47
- (16) See above, p.120
- (17) CAB 128 9 CM(47)9, 17/1/47
- (18) CAB 128 9 CM(47)9, 17/1/47
- (19) CAB 128 9 CM(47)9, 17/1/47
- (20) CAB 128 9 CM(47)11, 22/1/47
- (21) CAB 124 899 Nicholson to Bridges, 10/2/47.
- (22) CAB 124 899
- (23) T 230 24
- (24) T 229 104
- (25) Rostas, L. Changes in the productivity of British
industry, 1945-51, Economic Journal, 1952, p. 21:
"The striking fact is not only that the rate of
increase [of productivity] appears to have been
higher during the post-war years than in the inter-
war period but also that virtually all industries
showed improvements. Admittedly the base year 1946
was a year of relatively low finished output
because industrial reconversion was in an early

stage, while 1947 was affected by the fuel crisis, but from then onwards progress was continuous throughout 1948, 1949 and 1950, and while a few industries showed exceptional progress, almost all others participated in the upward movement"

- (26) T 171 389
- (27) J.C.R. Dow, The Management of the British Economy, 1945-1960, 1964, pp.19-20
- (28) T 171 390
- (29) Dow, op. cit. p.28.
- (30) T 171 389
- (31) T 171 390
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- (33) CAB 128 9 CM(47)21, 13/2/47
- (34) P. Williams, Hugh Gaitskell, 1979, p.135.
- (35) PREM 8 729
- (36) See above, p.129
- (37) PREM 8 729
- (38) Williams, op. cit., ibid.
- (39) PREM 8 729
- (40) PREM 8 443 I
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- (42) PREM 8 443 I
- (43) PREM 8 879
- (44) PREM 8 447
- (45) PREM 8 443 I
- (46) PREM 8 447
- (47) PREM 8 443 I
- (48) T 229 56
- (49) See above, p.108
- (50) CAB 129 17 see Cabinet paper: CP(47)92 (revise).
- (51) CAB 129 17
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- (56) T 229 56
- (57) Williams, op. cit. pp.136-7.
- (58) CAB 134 270
- (59) PREM 8 443 I
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- (62) PREM 8 455
- (63) PREM 8 455
- (64) PREM 8 455
- (65) PREM 8 443 I
- (66) Williams, op. cit., pp.110-13.
- (67) PREM 8 443 III
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- (70) T 229 45
- (71) PREM 8 446
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- (78) CAB 134 635 PC(47)18
- (79) PREM 8 879
- (80) PREM 8 879
- (81) Harlow, C. in Innovation and productivity under nationalisation, 1977, p. 64-9, assesses this policy and argues that it was 'unnecessarily conservative', though he admits that the decision to standardise on what, in later years, seemed to be rather small generating sets was due to a need to turn out replicates quickly after wartime disorganisation of manufacturing capacity facilities.
- (82) PREM 8 643
- (83) PREM 8 643
- (84) T 229 208

- (85) T 229 29
- (86) T 229 107
- (87) PREM 8 643
- (88) Chester, D.N. in Worswick & Ady (eds), The British Economy 1945-50, 1952, p.342.
- (89) Surely there was a touch of dry civil service humour in this acronym!
- (90) CAB 124 1112
- (91) CAB 21 2278
- (92) PREM 8 642
- (93) T 229 208
- (94) Chester in Worswick & Ady (eds), op. cit. p.349.
This happened when Cripps became Chancellor.
- (95) T 229 106
- (96) T 229 21
- (97) T 229 106
- (98) T 229 107
- (99) T 229 107
- (100) T 229 108
- (101) T 229 108
- (102) Jewkes, J. Ordeal by Planning, 1948.
- (103) T 216 89 The figures in Table 5 were produced for
an answer to a question in Parliament.
- (104) T 229 266
- (105) BT 173 2
- (106) CAB 124 223
- (107) CAB 124 223
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- (109) CAB 124 795
- (110) CAB 124 794, 23/9/46
- (111) CAB 124 796
- (112) CAB 124 795
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- (114) CAB 124 796
- (115) Donoughue, B. & Jones, G.W. Herbert Morrison -
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- (116) CAB 124 1079
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1947: THE CONVERTIBILITY CRISIS

On the 28th of October 1946, Morrison mentioned the possibility of a '1931' crisis to the Ministerial Economic Planning committee.⁽¹⁾ The general danger arose from the fact that the transitional dollar loans which had been obtained from the United States and Canada after the sudden end of Lend-Lease in 1945 were small in relation to the potential demand for dollars from holders of sterling, especially since the government had been pressured into an agreement to implement full sterling convertibility by mid-1947. Starting in the Autumn of 1946, negotiations were held with a number of countries, in which the government tried to establish the principle that those sterling balances not written off as war debts would be voluntarily 'blocked', except for earnings from current trade. But by the date of convertibility only about half the total balances were covered by such gentleman's agreements. At the same time, although Britain's trade deficit was less than had been forecast at the time of the negotiation of the Anglo-American financial agreement, it was nonetheless large in relation to the dollar reserves. In the end, 'The only safeguard was the self-restraint of the [sterling] holders'.⁽²⁾ Well before the date of convertibility the fragility of Britain's reserves was obvious.⁽³⁾ Tension inside the government grew throughout the first half of 1947 as an unsustainable outflow of Britain's gold and dollar reserves gathered pace. There had been rises in import prices, due to inflation in the United States, and initially it was thought that this accounted for the increasing drain. Meanwhile, external critics such as Roy Harrod accused the government, quite wrongly, of a lack of planning, or an element of squandering, in its dollar expenditure.⁽⁴⁾ Only later was it established that the main reason for the acceleration in the outflow was that sterling balances were rapidly being liquidated despite

the voluntary blocking agreements: "The current deficit worsened between 1946 and 1947; but this can explain only one-fifth of the worsening of the dollar outflow in that year." (5)

There were very powerful reasons for the government to restore convertibility, but the policy of voluntary blocks on sterling balances was misjudged if it was expected that it could probably succeed: there were even more powerful reasons why convertibility could not be sustained. The government was committed to restoring the international role of sterling as part of the reconstruction of a multilateral international trading economy. If there had been no agreement with the Americans and hence no transitional dollar loan, the government would have been forced into a siege economy earlier, with no certainty that liberalisation of trade would take place later. Such had been the fear of Keynes and his supporters, which had driven them to accept the terms of the dollar loans, despite misgivings about their small size and the early date of convertibility. The Keynesians' approach to external economic policy was based on the assumption was that multilateralism would maximise the total volume of international trade. This was a constant theme of Economic Section analysis and advice, (6) and was obviously attractive to the government of a country which would depend on visible earnings from overseas to an even greater extent in the future than in the past. But in 1947 the practicality of the policy became questionable because pressures on the sterling balances were overwhelming. Most of the countries holding sterling balances were poor (far more so than Britain, even with the 'austerity' that caused so much grumbling, though this was not an argument the government felt able to make very forcefully to the public). To these countries, their sterling assets 'signified ... the only immediate hope of replenishing consumer markets starved during the war, or of beginning investment programmes on

which their future progress and, in many cases, their social stability depended'.⁽⁷⁾ This may point to a reason why the Labour government, once it had realised what was happening, at first accepted the liquidation of sterling balances.⁽⁸⁾ Certainly, the motives of sterling holders were less base than those imputed to them by the person in CEPS who castigated the government for the folly of 'marching way out front alone towards a multilateral world, in a ... dollar famine, and getting our pockets picked for our pains'.⁽⁹⁾ Among others, Dalton had doubts about attempting convertibility in mid-1947 from the beginning,⁽¹⁰⁾ but he still experienced the suspension of convertibility on August 20th 1947, as a 'personal humiliation'.⁽¹¹⁾ The real significance of the event in the context of the present analysis, however, was that it reversed the movement towards the goal of a multilateral international trading system, a change which had profound implications for the policy of economic planning.

I

Though the exact mechanism of the crisis was not foreseen, the convertibility crisis did not come as such a shock to the government as it did to most of the public. The general danger was pointed out to the MEP in October 1946, and ways of heading off expected balance of payments difficulties were first discussed in detail in early May 1947, when the Treasury made proposals for import cuts which were considered by ad hoc meetings of ministers and officials.⁽¹²⁾ The ministers were not at all keen on the idea import cuts, which summoned up the ghosts of 1931. Other ways of avoiding a crisis were discussed: renewed foreign credits, higher export prices, stimulation of exports of good dollar-earners such as textiles, discrimination against dollar imports, cuts in military expenditure, relaxation of controls, and

prospects for higher productivity.⁽¹³⁾ Characteristic of the period of 'drift', the discussion was often speculative rather than practical.⁽¹⁴⁾ One example of the search for means to avoid future import cuts and a renewed approach to the United States was the policy of 'sterling area development', which was pushed by Morrison in his 'Planning for expansion' memorandum, mentioned in the last chapter. Morrison was critical of officials for saying that 'everything possible is already being done', and believed that this negative attitude particularly affected any proposals for solving economic problems by expansion of supplies rather than retrenchment of requirements. In opposition to what he perceived as a restrictive attitude by the Treasury officials, Morrison - together with some other ministers - wanted to expand supplies of imported raw materials from the sterling area as quickly as possible, in particular through the rapid exploitation of British colonies in Africa. This had already begun, in 1946, with the sanctioning of the East African groundnuts scheme, but further progress of the policy was slow. Morrison got agreement from the Cabinet that proposals for sterling area development should be examined, but little happened until after the convertibility crisis.⁽¹⁵⁾

The most palatable solution, for both ministers and officials, would have been to make the existing policy work by means of further borrowing from the United States, but this was a distant possibility dependent on changes in broad American foreign policy aims. Changes in US policy towards Europe were already underway, greatly motivated by the post-war communist advances which were producing what amounted to a political stampede in Washington. And American fears did not exclude Britain, judging by the record of a meeting between the US ambassador and ministers in May 1947. According to the ambassador, there was a worry in the US that Britain's economic problems would polarise the country, and that

the Labour government might collapse, leaving a right-wing government facing a communist-led trade union movement.⁽¹⁶⁾ Preposterous perhaps,⁽¹⁷⁾ but the Labour government was not above stirring American fears. Bevin, for one, was not slow in linking the fight against communism in Europe with economic aid. An official's summary of Bevin's thinking about the 'possibilities open to American policy' (dated 4/6/47, the day before Marshall's speech about European recovery) shows that he was prophesying imminent political crisis and civil war in Europe unless communist plans were countered 'in the next fortnight'(!). In light of this, Bevin urged that the US should 'cease to consider our problems and those of Western Europe in isolation'. He wanted Europe to be given food on a lend-lease basis. While he specifically excluded asking for a new dollar loan, the type of aid Bevin wanted would have helped the balance of payments by reducing Britain's share of food aid for Europe - including the much resented responsibility for 'feeding the Germans' - on which dollars were being spent.⁽¹⁸⁾ Not long after this, at the end of June, there was a meeting of European foreign ministers which led to the formation of the Organisation for European Economic Co-operation, and eventually to a massive injection of dollar aid through the European Recovery Programme. But these events of May-June 1947 were at the beginning of a long and uncertain road. Not until November 1947 did the government decide definitely to seek a new dollar loan.⁽¹⁹⁾ The OEEC was not formally established until April 1948, and it was some time after that before the exact picture of renewed American financial aid for Britain became clear.

In the Spring of 1947, then, the prospects for new dollar loans seemed very distant and other remedies designed to maintain or increase supplies in the face of a balance of payments crisis were equally conjectural. The need to discuss import cuts therefore could not be

avoided, though ministers resisted the initial Treasury proposal for a £200m cut; it was trimmed to £150m, and the official Committee on Economic Development were asked to examine the implications. The official committee replied that they were anxious about a loss of nutritional value if food imports were cut to the proposed extent: expert advisers claimed that the cuts would lead to a loss of efficiency and falling morale. Against this, the Treasury worried about 'early disaster' if the cuts were not big enough. As the discussion wore on, with external criticism mounting, there was also a great deal of ministerial nervousness about public reaction to import cuts.⁽²⁰⁾ As a result of these ministerial and official doubts, the Treasury's proposals were whittled away to £80m. John Strachey, the Minister of Food, then put forward the argument that, if a £150m cut was the minimum required to remove the need for a new approach to the US for credit, there was little point in a cut of £80m, which would have some of the bad effects without achieving the main objective.⁽²¹⁾ Following this, some import cuts were announced on the 8th of July, just before the date of convertibility, but these left the programmed volume of imports higher than in the previous year; meanwhile, prices had been rising.⁽²²⁾

II

Convertibility was announced on July 15th 1947. Before the end of July there were some contradictory public statements about the economic situation: it was variously stated that any further import cuts would be minor; that the solution of balance of payments problems would require international action; that Britain would have to help itself.⁽²³⁾ On July 25th, Dalton told the Cabinet that the reserves position was rapidly deteriorating.⁽²⁴⁾ In an atmosphere of rising alarm there was clearly a need to establish a firm and coherent policy, and this the

government began to do at the beginning of August.(25) In fact, of all the economic events between 1945 and 1951, the convertibility crisis caused the most severe shake-up of policies and policy-making machinery. With it, the period of 'drift' which followed the failure of the Economic Survey discussion and the fuel crisis came to an end. Policy changes at the time of the convertibility crisis were considered by the Cabinet and by ad hoc ministerial meetings chaired by Attlee. There were also ad hoc meetings of senior officials. By this means a completely new agenda for economic policy was drawn up.(26) As it became clear that the outflow of reserves threatened the basis of the existing level of imports, the whole of Britain's trade practices had to be examined in the light of which currencies were 'hard' or 'soft': attempting to direct more exports to the former and obtain more imports from the latter.(27) The crisis also led to a re-examination of the balance of output between exports and domestic consumption and investment, and a key decision was made to initiate a major effort to control investment - an issue which had previously been ducked. Decisions taken by the Cabinet at the beginning of August became the scaffolding for a more comprehensive form of economic planning than had been attempted since the end of the war, and the detailed work of creating priorities and finding the means to implement the decisions went on for many months.(28)

The convertibility crisis led to a complete overhaul of policy-making machinery. After the convertibility crisis all strategy and machinery was examined from the angle of the balance of payments crisis. Brook wrote to Attlee: 'For the next six months, and possibly longer, the needs of our foreign trading will dictate certain adjustments of our internal economy and will have an important influence on many of our domestic economic problems'.(29) It was now realised that one of the failings of the previous machinery had been inadequate

integration of domestic and external policy. Brook recommended setting up a new Cabinet committee, to be chaired by the Prime Minister, to deal with the whole of economic planning, both internal and external. In the event the new Economic Policy Committee did not start to function until November, but it endured, and was an important step away^{from}/central economic machinery clustered around the Lord President's committee under Morrison. Another important step towards the integration of different aspects of economic policy was the creation of the post of Minister for Economic Affairs, which Cripps moved into from being President of the Board of Trade; and it was explicitly stated that Cripps would be responsible for giving 'undivided attention to our economic problems at home and abroad'.(30)

The crisis also led to some rethinking about the implementation of policy. Ministerial dissatisfaction about this came to a head shortly after convertibility had to be suspended on August 20th. Morrison complained, in a memorandum to the Cabinet: "There are many decisions other than those of major Ministerial Committees which are liable not to be followed up".(31) The Cabinet asked Brook to look into the matter.(32) After this Cabinet rebuke, Brook met some other senior officials to see 'what improvements could be made in the existing arrangements for "progressing" decisions'.(33) Normally, ministerial decisions were followed by 'Black-lists', which were issued for the Cabinet, the LPC and FC committees. Brook said he could 'consider whether that technique could conveniently be applied to the work of other cabinet committees', and also promised that the Black Lists would in future be more vigorously followed up.(34)

The Black List procedure dated from 1940. At the start of the war departments were told that they were responsible for going through Cabinet conclusions, to pick out which affected them, and carry out policy;

ministers would normally also inform their departments of Cabinet policy, but it would "at the same time, remain the responsibility of each department, on receipt of the War Cabinet conclusions addressed to the minister, to ascertain what action the department is called upon to take under the Conclusions, and to take the necessary measures without any further or more specific direction from this office".⁽³⁵⁾ This was not enough. In 1940 it was suggested that the responsible minister should be named in the Conclusions, and that the Cabinet Secretary should check on a list that the action was complete.⁽³⁶⁾ Such was the origin of the Black Lists.⁽³⁷⁾ Problems were easy to foresee: there would practical reasons for not implementing some policies; long-term programmes would present difficulties; so would those based on, for example, 'moral constructs'.⁽³⁸⁾ Officials faced some of these problems in 1947. Brook wrote several comprehensive notes about how the August balance of payments decisions would be followed up, giving departmental responsibilities for each aspect of policy, but he thought that this technique was 'readily applicable only to the immediate following up of ministerial decisions'. Brook insisted that the Cabinet secretariat could check on specific actions ordered by the Cabinet and leading Cabinet committees, but they could not progress a policy. For example, departments could be chased for reports that had been ordered by a certain date; but, 'if the Cabinet decides that the Ministry of Transport should make every effort to expedite the repair of railway wagons, the Cabinet Office cannot be expected to ensure that the ministry does all it can in this direction'.⁽³⁹⁾

In short, existing arrangements were inadequate to deal with wide-ranging policy like economic planning. Three proposals were made. Firstly, that there should be 'adequate statistical data and an agreed yard-stick by which progress can be tested'. This led to the

production of a fortnightly economic bulletin which was regularly considered by the Cabinet, and was the basis for regular economic briefs to ministers.(40) Secondly, it was accepted: 'There must be some central focus, at the official level, at which progress is regularly reviewed and shortcomings identified'. It was agreed that the Central Economic Planning Staff would keep the statistical data under review. CEPS was to spot which projects were falling behind and consider how they could be 'progressed'; and if no steps could be devised, analyse the implications for the rest of economic planning.(41) Thirdly, 'there must be an inter-departmental committee at the Ministerial level to which failures can be reported and remedies recommended'.(42) This pointed to the need for a successor to the Lord President's Committee, which had carried out a similar role until the beginning of 1947. After the convertibility crisis a Production Committee was formed, which was responsible for this task. Thus, the convertibility crisis led to a strengthening of the central machinery for economic planning, in particular through giving CEPS a comprehensive responsibility for formulating advice on the implementation of plans.

III

The detailed reformulation of policy at the time of the convertibility crisis to some extent followed familiar paths and arrived at familiar conclusions. From the end of the war manpower policy was dominated by the questions of whether to use labour controls, and whether to cut the armed forces faster. In the Summer of 1947 the government appeared ready to strengthen the rump of labour controls. To this end there were talks with the TUC about a 'limited reintroduction' of labour direction for 'purposes of persuasion', as Isaacs insisted.(43) The TUC agreed to this, but the idea of renewed labour

direction aroused extreme indignation when the government introduced new legislation in Parliament. So vitriolic was the Opposition's attack that the King wrote to Attlee that he was 'perplexed' by different interpretations of the Bill embodying the measures: was it, as the Lord Chancellor had said, 'a purely legal necessity' to close loopholes in existing powers or would it be used to 'curtail seriously those liberties which the ordinary British citizen has long regarded as his right'? The King, not unsympathetically, asked Attlee 'as my Prime Minister' to explain his true intentions.⁽⁴⁴⁾ The government sent a reassuring reply, and in reality the government was largely limited to exhortation in trying to redistribute labour. For example, Attlee wanted pressure to be put on employers in inessential industries not to take on labour.⁽⁴⁵⁾ There was also the very well publicised campaign against 'Spivs and drones': people making a living from black markets. 'Spivs and drones' were resented by the trade unions, who pointed out that workers could hardly be expected to accept labour discipline if the government tolerated corrupt practices. The government told the TUC that reducing inflationary pressure was the most effective way to deal with spivs and drones, so the subsequent public campaign was probably aimed at keeping the goodwill of the unions.⁽⁴⁶⁾ In fact, the most significant indicator of the government's intentions was the abolition of the Cabinet's Manpower Requirements Committee in the reforms following the crisis; for the first time there was no central check on the distribution of manpower, and this shows that the government had no serious intention of re-introducing anything like the wartime manpower budgets.⁽⁴⁷⁾

Far more significant than the issue of labour controls was the possibility of reducing the size of the armed forces as a way of providing relief to inflationary pressure and reducing overseas expenditure. At the end of

July Dalton proposed that 150,000 out of 500,000 troops overseas should be brought home by the end of the year. This again raised questions about overseas commitments, and set alarm bells ringing in Washington. The Americans were pressing Britain to retain as much military influence overseas as possible, and Marshall sent a message to Bevin on August 2nd warning about the consequences of withdrawing British troops from Greece and Italy, adding: "I am still more disturbed about the possible implications of this decision as to future British intentions".(48) The option of slowing down the call-up as an alternative to cuts in the armed forces was put to the Cabinet on August 5th, but was rejected on the grounds that it would not have a significant industrial effect. On August 11th Dalton informed Attlee that he was still worried about the size of the armed forces, pointing out that in Bevin's view such a large force was not needed for foreign policy aims. In a letter to Attlee, Bevin asked: "...if the Chiefs of Staff go on as they are going, will they not ruin the entire prospects of obtaining an efficient force, and turn the whole country against them?"(49)

Alexander, the Chief of Imperial General Staff, did admit, in a paper to the Defence Committee, that plans were still 'far beyond the capacity of the country in this time of economic stress'.(50) New assumptions were laid down by Alexander, which accepted that it was not possible 'to contemplate undertaking a major war until our economic and industrial strength has recovered'; although, 'the financial limit imposed may prevent us having the defence forces hitherto considered necessary on the outbreak of war.'(51) The aim for 'the next few critical years' would be to maintain forces at the minimum level, while at the same time providing essentials and 'the best possible show of deterrent strength'.(52) When this policy was considered at the Defence Committee on September 18th 1947, the Minister of

Defence saw 'serious risks'; Bevin found it 'difficult to take an optimistic view of the international situation'; the drift of the discussion was that the danger of war with Russia made the new assumptions unacceptable.(53) Nevertheless, on September 30th the Minister of Defence recommended the Cabinet to 'accept the serious risks and political consequences involved in reducing the strength of our armed forces...". And on October 2nd the Cabinet agreed.(54)

These decisions on cuts in the armed forces promised some relief to the balance of payments. Meanwhile, the new situation further underlined the need for continuous scrutiny of factors affecting the output of basic raw materials such as coal and steel. It was not yet clear that the output of coal was sufficient to avert a new coal crisis, though the government was well-prepared for a repeat of the fuel crisis. In fact, Morrison pronounced himself 'cross' with the miners, when ministers met an NUM delegation to discuss coal output and working hours the day after the announcement of the suspension of convertibility. The government did not waste the opportunity to press home the imperative need for more coal.(55) There were also continuing problems with the supply of steel. The supply of coal and steel were closely interlinked, and the Fuel Allocations committee was asked to look into the implications of a new target of 14m tons of steel announced by the Prime Minister to Parliament during August.(56)

There was, however, little optimism that the general effects of the crisis, followed as it had to be by import cuts and an intensified export drive, could be overcome by measures to increase supplies. There were important implications for allocations policy. CEPS was given work connected with 'adjustments to industry' in the wake of the convertibility crisis. There were now Planning Officers in each department, who met as the Economic Planning (Official) Committee. It was suggested that

this committee should do a co-ordination job similar to that done by the Ministry of Production in wartime. Brooks agreed: "there is a need for some greater measure of control in these matters".⁽⁵⁷⁾ On September 20th, EP(O)C was told that "We shall want to expand output where the whole or a large part is exportable and, in particular, where it is required under possible future trade agreements. We shall continue to hope for expansion of output of items on the Prime Minister's Priority List and there will be other items of growing internal importance such as agricultural machinery ... "common service" bottlenecks ... and production which definitely saves imports." But the task of integrating these different priorities and incorporating them into the procedures of the administered economy was immense. Gaitskell set down principles for allocation policy at this time,⁽⁵⁸⁾ and he stressed how difficult allocation decisions were going to be in the future. On the order of priorities he agreed that exports were important, but there were also important domestic priorities such as steel for machinery that would improve productivity and output in agriculture, thus saving imports. Gaitskell was not for putting exports as a priority above everything else, but he did want to put the the balance of payments above what he called 'cherished programmes' (meaning the building programme, especially housing).⁽⁵⁹⁾ He also set out what he thought the chief conflicts in objectives were for the major allocated materials. For steel there was a major conflict between building and engineering; for timber there was a conflict between building and merchant shipping; for lead there was a conflict between cable and battery exports on the one hand and GPO investment and the building programme on the other.⁽⁶⁰⁾ Gaitskell thus became the first minister to express strong agreement with the view put so often by officials, and by external critics such as Roy Harrod, that there was a direct link between the level of exports

and the level of public investment programmes. Gaitskell's hard-headed approach to 'cherished programmes' led to tension between him and Bevan long before their better-known clash over National Health Services charges and rearmament.

Conflicts were not limited to problems with the allocation of real resources. The expectation that inflationary pressure would increase following the suspension of convertibility and the approaching exhaustion of the dollar loans also led to problems with financial policy. The idea of a supplementary budget for this purpose was first mooted on August 11th, in the middle of the balance of payments crisis. An estimate was made of the additional pressure, and means were discussed of overcoming it in a special Autumn Budget. This is well-known as the Budget which led to Dalton's resignation because of a 'leak' to a journalist about the contents of the Budget. It is less well known as an occasion for sharp internal disagreement between Dalton and the official Budget Committee about the measures for disinflation.⁽⁶¹⁾ There was no argument about financial disinflation in principle: in the general policy discussions preceding the budget it was generally agreed that the main purpose would be to 'mop up' inflationary pressure.⁽⁶²⁾ The early proposals were to double profits tax and purchase tax. Also, investment controls would be supplemented by instructions to the Capital issues committee to restrain new financial investment. Where there was argument between Dalton and the Budget Committee was on the need to reduce food subsidies, which had become the most expensive part of the stabilisation policy introduced in 1940 to prevent wage rises by keeping the working class cost of living level. After the end of the war food subsidies had grown very fast, doubling in amount during 1945-7, due to the rise in import prices, especially of American wheat. The food subsidies were the subject of a powerful campaign in the

press and among 'expert' opinion, which argued that they should be reduced.(63)

In a note to Dalton on October 22nd, Bridges conveyed the view of the Budget Committee that the proposed budget yield of £220m, even when account was taken of cuts in the armed forces and investment, made "a wholly inadequate contribution to the relief of the inflationary pressure", which would have "a serious effect on the success of the Government's planning policy". Bridges pointed out that the main structure of economic planning rested on those items susceptible to effective control: "planning of imports, planning of investment and fiscal measures. We are bringing the first two under control, but if, as we fear, we fall down on the third, the whole of the inflationary pressure has to be met by the physical controls, which cannot stand the strain". The view of the Budget Committee was that the Budget should deal "openly and resolutely with the subsidies". Cabinet policy on the subsidies was that they should not increase any further. The officials thought, instead, that the estimated £435m figure should be brought down to £300m, and that the consequent increase of prices "must not be used as an argument for increase of wages".(64) In short, working class living standards would have to fall. While recognising that ministers would face serious political difficulties in reducing subsidies, Bridges argued the importance of retaining the confidence of financial interests: "we have in mind, among other things, interest rates and the market, which are important to your financial policy and to the judgement by other countries of the stability of sterling". Bridges closed with the comment: "we should, as I know you will agree, be failing in our duty if we did not tell you frankly the very strong views that we have all formed on the merits of this vital question at this crucial moment".(65)

Dalton's rejoinder was to quote Otto Niemeyer's famous

remark, made in 1931, "the trouble is that the rich are too poor and the poor are too rich". This, he presumably felt, summed up the attitude of the Budget Committee and the government's external critics, who had been loudly advocating cuts in food subsidies. He agreed that an immediate Budget surplus was 'the primary counter to inflationary pressure'; but pointed out that to produce a surplus of a given size, '£10 million off here is as good as £10 million off there'. Apart from this, different types of cut would have very different results. Dalton was convinced that a cut in food subsidies would worsen the relative position of the poorest families, and would produce the 'maximum political commotion among Government supporters'. It could be argued that there would be beneficial economic effects: reductions in subsidies might 'stimulate workers to work harder, because their food will cost them more'; but this policy of disinflation through rising prices might equally induce pressure for higher wages or welfare payments. In short, cutting food subsidies combined the worst of all worlds from Dalton's point of view. One of his last actions as Chancellor was to exorcise the ghosts of 1931 by rejecting the Budget Committee's 'strong views'. The government did not change its policy on food subsidies for the time being.(66)

IV

Keynes, defending the onerous terms of the dollar loans against critics in 1946, pictured the alternative to borrowing dollars and setting up a liberal trading system as follows: Britain would have to 'build up a separate economic bloc which excludes Canada and consists of countries to whom we already owe more than we can pay, on the basis of their agreement to lend us money they have not got, and buy^{only}/from us and one another goods we are unable to supply'.(67) This was the counterpart in the

international economy of inflationary pressure and the administered economy at home. Nevertheless, after the convertibility crisis some degree of siege economy with stronger economic controls became inevitable. This had been predicted early in 1947 by O.S. Franks, in a series of controversial lectures, published as Central planning and controls in war and peace, in which he argued that balance of payments difficulties would require central economic direction for at least a decade.⁽⁶⁸⁾

The August convertibility crisis resolved the conflicts within economic policy in favour of tightening up rather than relaxing economic controls. The bleak economic outlook demanded a firmer approach to all the problems that had been raised as objections to the use of controls in the past. This did not remove the difficulties of using direct controls to balance the economy between production for domestic purposes and exports, which had been raised by officials from the time of the reconstruction discussions onwards, but it did - at least temporarily - change the atmosphere in which the issues were studied. The resulting policy had many elements of a siege economy. Exchange controls were tightened, to limit capital movements from Britain and from the sterling area as a whole, and a special Dollar Drain committee was set up to pursue this policy.⁽⁶⁹⁾ There were measures of discrimination to favour trade within the Sterling Area. Bilateral deals were concluded whereby Britain provided some scarce materials (which would otherwise have been obtained with scarce dollars) in exchange for dollar-saving imports. For obvious reasons, the government wanted to export as little coal and steel as possible, but made some concessions to secure vital imports or for political reasons. Such bilateral negotiations were supervised centrally by an Overseas Negotiation Committee.⁽⁷⁰⁾ The possibility of colonial development as a means of breaking the bottlenecks of raw material supplies was looked at more

seriously, as was the potential for expanding domestic import-saving activities, especially in agriculture. In these and other ways economic policy became more autarkic after the convertibility crisis. But the most important element of balance of payments policy continued to be the export drive, with a renewed stress on increasing dollar earnings. To this extent the government was relying on discriminating against the dollar area while exports to the dollar area were not being discriminated against. This had become the only realistic policy in the prevailing dollar shortage, and the American government accepted it without retaliation.⁽⁷¹⁾

Elaborate machinery was created to deal with the balance of payments problem, which deserves to be examined comprehensively as a form of economic planning in international trade. This account, however, deals mainly with the export drive, which was closely inter-related with investment policy, with the problems of bottlenecks in supplies from the basic industries, and thus with the issues of balancing the whole economy. Moreover, the fate of export policy was central to the policy discussions during the next reserves crisis, during 1949, which led to devaluation. Nevertheless, it is important to say something about import policy immediately after the convertibility crisis. Senior officials regarded this as central to economic planning because it was susceptible to control, but this was less true than they thought. When it came to implementing the import cuts that were agreed by the Cabinet during the crisis, it turned out that a large part of the food import programme was covered by long-term contracts that were difficult to cancel. There was a flurry of letters between senior civil servants in the autumn of 1947 about 'difficulties' with the Ministry of Food, which had been fiercely resisting cuts in the food programme. But the real difficulty lay in the fact that assumptions about

Table 6. Balance of payments, current account, 1945-51

(£M.)

	Imports	Exports & re-exports	Visible balance	Invisible balance	Current balance
1945	700	450	-250	-620	-870
1946	1,063	960	-103	-127	-230
1947	1,541	1,180	-361	-20	-381
1948	1,790	1,639	-151	177	26
1949	2,000	1,863	-137	136	-1
1950	2,312	2,261	-51	358	307
1951	3,424	2,735	-689	320	-369

Source: Feinstein, C.H. National income, expenditure and output of the United Kingdom 1855-1965, 1972, Table 37

the level of imports on which the long-term contracts had been based had been overtaken by events. Whereas the contracts had originally seemed a good way of reducing the costs of the import programme, it now had to be accepted that, because of the difficulties of cancelling them, the savings of hard currency expenditure "within the period covered by the [August] Cabinet decision cannot possibly be achieved, and certainly not for the rest of this year".⁽⁷²⁾ Thus, not only was it difficult to reduce the volume of imports, but the savings thereby made would not be as great as had been hoped. The need for success in the export drive was in consequence that much greater.

From the reconstruction discussions to the convertibility crisis, the main aim of export policy had been to establish voluntary 'export ratios' with firms, using techniques described by D.H. Robertson as "the characteristic English processes of jolly along - of encouragements which are not quite promises, frowns which are not quite prohibitions, understandings which were not quite agreements."⁽⁷³⁾ There had been a policy of

providing at least a 'trickle' of goods of all kinds for export,⁽⁷⁴⁾ with only preliminary moves towards the guidance of exports to particular markets.⁽⁷⁵⁾ The suspension of convertibility gave a new twist to the situation. With the exhaustion of the US loan imminent, and only a distant and uncertain prospect of renewed borrowing, it was necessary not just to increase the total volume and value of exports, but also to change the pattern. Since the convertibility crisis was fundamentally a 'dollar shortage', exports to the dollar area were particularly important. There was an attempt to optimise foreign exchange earnings in two ways: first, by setting criteria for 'desirable and less desirable markets';⁽⁷⁶⁾ second, by increasing supplies of particular types of exports over a short period. This represented a complete change of export policy, for which Cripps, as President of the Board of Trade, was mainly responsible. For the first time a formal export programme was produced, by a new inter-departmental Exports Committee. This was a committee of officials chaired by a junior minister, very similar in concept to the Fuel Allocations committee chaired by Gaitskell; in this case the chairman was Harold Wilson.⁽⁷⁷⁾ The Exports Committee quickly produced an export programme acceptable to the Cabinet. On September 12th, Cripps gathered a large number of leading businessmen in Central Hall in London, and put the government's new policy to them directly.

Cripps believed in the power of exhortation, but a question raised by the new export policy was how far it would require enforcement, something about which there had been indecision since the reconstruction discussions. In the first instance the Exports Committee was responsible for discussing implementation of the export programme, and in some of its early meetings it examined such matters as sanctions through raw materials controls to keep firms to agreed targets.⁽⁷⁸⁾ After a short time, though, Wilson's committee concentrated on constructing

and monitoring the export programme, leaving the question of implementation to a new Export (Plans) (Official) Committee.⁽⁷⁹⁾ In its terms of reference the Export (Plans) Committee was given a very broad area of interest, but the topics it considered most fundamental were guidance and incentives. Because the new export programme laid great stress on engineering exports, which were expected to be relatively easy to increase, and because the administrative controls over steel allocation were still relatively strong, the committee felt that the Ministry of Supply would be the department most affected by any attempt to enforce the export programme by raw material sanctions or other means.⁽⁸⁰⁾

This picture changed during the autumn because the government decided that it would be unrealistic to expect such a rapid increase in engineering exports as had been proposed in the initial export programme. Controls over the use of steel were supposed to be complete, but the government was still struggling to get the steel distribution system under control. To the extent that total steel supply was still constrained (the shortage of dollars had not made things any easier), any attempt dramatically to increase engineering exports would be a factor making the steel allocation scheme yet more problematical. Thus, although Gaitskell had claimed at the start of August that the priority system was beginning to bite on raw material allocations, after the convertibility crisis it was said that there was a need to get the co-operation of the steel industry to secure priority orders for exports or import-saving, which suggests that there were still problems.⁽⁸¹⁾ On September 19th 1947, the Materials Committee carried out re-adjustment of allocations for the export programme.⁽⁸²⁾ But continuing difficulties with steel supplies and the competing demands of public and private investment programmes led Wilson to inform the Production Committee in mid-November that shortfalls in steel would require

revisions of the initial export targets.⁽⁸³⁾ The decision to draw back from pushing engineering exports led to complaints that the home market was being allowed too much in the way of investment in plant and machinery: 'Can we better afford to cut these exports or home re-equipment'?(⁸⁴) However, there was another point of view: that exports of engineering goods was a short-sighted policy, preventing domestic re-equipment while strengthening competitors. The question of whether too many or too few capital goods were being exported continued to be a matter for debate for some time.⁽⁸⁵⁾ Meanwhile, the main result of the move away from engineering exports as a quick solution to the export was that attention moved to the potential for increasing textile exports in late 1947, and the Production Committee took on the task of seeing how they could be increased.⁽⁸⁶⁾ The knotty problem with textiles was that there would have to be either a larger labour force or a cut in the clothing ration (a dilemma that had been identified long before).⁽⁸⁷⁾ Because of this shift of emphasis, the use of raw materials sanctions to enforce the export programme became less important than had at first appeared. Officials continued to examine the problems of export guidance and incentives, but their approach was, as before, sceptical.⁽⁸⁸⁾

After Cripps's Central Hall speech in September, then, there was a revision of export plans which was completed by December 1947. The overall export target was slightly raised. Lower targets were agreed for engineering because of reduced steel allocations. This was particularly disappointing because engineering was an area where it had been expected that quick gains could be achieved. The overall dollar target was reduced, correcting what was seen as initial over-optimism about the potential market.⁽⁸⁹⁾ Some targets - textiles in particular - were increased to make up for reductions in others. The revised export programme was based on the

assumptions that there would be no foreign aid; that imports would be kept at the same level; that steel supplies would not increase; and that domestic clothes rationing would stay at the same level. The previous aim of 160% of 1938 volume by the end of 1948 was regarded as unrealistic unless more steel supplies were forthcoming.⁽⁹⁰⁾ As to how the programme would be carried out, an eloquent cutting from the Financial Times of November 17th 1947 was placed in a Treasury file on controls: 'The machinery...for directing exports does not exist and it would be a major task to create one'.⁽⁹¹⁾

V

To critics, the test of the government's resolve after the convertibility crisis was not whether it would enforce the export programme but whether it would enforce investment cuts. The Cabinet agreed, on August 1st 1947, to an investment review. Departmental programmes were to be cut unless they made a direct contribution to exports or import-saving.⁽⁹²⁾ The notion of departmental 'sponsorship' of industries meant that in principle the whole field of investment, public and private, was covered by this decision. To carry out the review, an Investment Programmes Committee was set up, chaired by Plowden. In order that the work of the IPC should not be held up by inter-departmental wrangles it was agreed that the IPC should not be composed of representatives from all interested departments.⁽⁹³⁾ Plowden wrote to departments, asking them to submit new investment programmes to the IPC, preserving urgent priorities, but based on an overall cut of 11.5%.⁽⁹⁴⁾ The IPC set to work and produced a report by October 8th. This was remarkably quick: one indicator of the work involved is that the Board of Trade alone had to review some 8,000 industrial projects.⁽⁹⁵⁾

The main aim of the exercise was to shift resources

from investment to exports. The argument of Roy Harrod and other critics was that cuts in 'excess capital outlay' (by which they meant the building programme, especially house-building) would allow a redeployment of labour and materials which would reduce inflationary pressure and help the export drive. This was a strongly-held view among officials. Among ministers it was supported forthrightly by Gaitskell. Thus, on August 8th, Gaitskell wrote to Morrison asking him to "resist at all costs" any pressure for an early decision on the future of the housing programme. Gaitskell was not a Cabinet minister at this time, but because he had been increasingly involved with allocations policy he was in a strong position to argue that the conflict between building and exports was, "unfortunately, apparent in many raw materials, and there is no doubt whatever that the implementing of the new export programme will depend to some extent on whether we are prepared to cut building". Gaitskell therefore wanted any decision on housing to await the outcome of the IPC exercise.⁽⁹⁶⁾ From the start, though, there was some scepticism about whether 'redployment' would work. At a CEPS staff meeting in early September it was reported that the IPC had discovered few large scale investment projects to postpone; that curtailment of the housing programme would not show benefits for some time; and that cutting issues of building licences would only be effective after about a year. Also, it was expected that redeployment of building labour would be slow. Moreover, consumption of materials would not necessarily be reduced after a cut in the labour force since there were shortages of materials in relation to the existing labour force. But the main problem, to which 'no quick solution' could be seen, was on the plant and machinery side, where the argument was about whether capital equipment should be exported or used for domestic re-equipment. ⁽⁹⁷⁾ This was a fairly comprehensive set of drawbacks, which helps to explain

why there had to be revisions in the export programme later, and throws some doubt on the reality of the IPC exercise, as well as on the arguments of critics who believed that so much could be achieved by redeployment. Despite this, the IPC report was well received by Cripps, judging by the marginal note he made on it when he first read it: 'Very good paper, in form and substance. This is a real start in central planning! ... The first real achievement in practical economic planning'. The main recommendations of the IPC met with general agreement as they passed rapidly through the hands of all the main official and ministerial committees concerned with economic policy, up to the Cabinet.⁽⁹⁸⁾ The inevitable exception concerned the housing programme. The Cabinet meeting to discuss the IPC report led to a formal complaint from Bevan to Attlee about the accuracy of Cabinet conclusions. Bevan claimed to have agreed with building cuts rather than housing cuts as recorded.⁽⁹⁹⁾

The IPC report dealt with the investment aggregate in two parts: building, and plant and machinery. Building was sub-divided into housing and industrial building. The latter was further broken down into civil engineering (which included infrastructural works such as road building), and factory building. The chief aim was an overall investment cut for the reason already stated, but the trickiest part of the committee's work was to preserve the government's priorities by re-balancing investment within the smaller total.⁽¹⁰⁰⁾ Within the building programme, for example, housing was not the simple welfare issue that some critics regarded as readily disposable. To expand the workforce in key industries such as mining and agriculture one of the main things that could be done was to increase the supply of workers' houses. A decision to put this priority into the housing programme had been taken after the fuel crisis, and the balance of payments crisis only confirmed the need for it. The IPC recommended that new housing

starts should be reduced to 5,000 a month, and that these should be mainly in mining and rural areas.(101) Industrial building was also not without political significance: there were the aims of regional policy, which affected factory building and infrastructural work. Once again, critics such as Harrod would have jettisoned these, although in doing so the long-term prospects for breaking the patterns of regional depression would be jeopardised.(102) At the same time, pressure groups such as the FBI were insisting that industrial building should have precedence over other building such as housing. The IPC recommended a six month freeze on new industrial building starts, and postponement of many other projects - in all areas including Development Areas. Here an important consideration was that industrial building was an important user of steel.(103)

In the case of plant and machinery the committee's decisions were guided by the hope of creating a direct and quick-acting connection between cuts in investment, or reductions in supplies of consumer durables to the domestic market, and increases in exports. Thus, it seemed more plausible that exports of plant and machinery would increase as a result of cuts in domestic re-equipment than that resources would be redeployed to export industries after building cuts. But important programmes such as fuel and power expansion had to be preserved, and investment that would increase the efficiency of the export industries themselves had to be taken into account. The outcome was a complex set of recommendations. Some were concerned with restrictions on deliveries of goods such as cars and passenger service vehicles and light vans to the domestic market, in the hope of encouraging exports. There were other recommendations to curtail production of capital equipment such as steam locomotives and railways carriages, though not waggons. Allocations of steel and timber for maintenance of the railways permanent way were

reduced. The allocation of raw materials for many other investment programmes was to be reduced or reviewed, though the building of new power stations and hydro-electric schemes was to go ahead for at least another two years.(104) The difficulties that the committee found in coming to a conclusion on many issues connected with plant and machinery were reflected in the fact that not all its recommendations were firm ones, further studies were called for in a number of cases.

In their comment on the first IPC report, CEPS and the Economic Section thought that the building recommendations should be 'accepted and implemented rigorously and without delay'. They were not so clear about those on plant and machinery:

'The key factor is steel. Prospective steel supplies are hedged around with much uncertainty. There is no less uncertainty about the requirements of steel for investment and other purposes - a situation which is not eased by the absence of quantitative programmes over a large part of the field. Furthermore, since the [IPC] ... was appointed, the government has announced its export plan, which is heavily weighted on the side of engineering. This not only makes increased demands for steel but also imposes severe restrictions on the flow of capital goods for home investment'.(105)

In light of the difficult steel prospects, it was suggested that the balance of the export programme should be looked at again, with a view to reducing the emphasis on engineering. In particular, it was proposed that a shift towards textiles would mean that the choice would be between consumption and exports rather than re-equipment and exports.(106) It was these considerations that led to a supplementary IPC report in early 1948, and to a new export programme, so the interlinked efforts of the Exports Committee and the Investment Programmes

Committee were only a first attempt at solving the problems posed by the convertibility crisis.⁽¹⁰⁷⁾ In fact, the IPC report was the opening shot in a campaign that lasted well into 1948. With so many different programmes and notions of priorities at stake, and a set of recommendations that clearly required re-adjustment, there were angry rejoinders from many directions. The main ones concerned the electricity programme, the housing programme and the Development Areas. Following the appraisal of the IPC report by various committees it was decided to publish a 'suitably edited' version of the IPC report, which became Capital investment in 1948.⁽¹⁰⁸⁾ Many of the subsequent battles about the report took place around what should or should not be included in this document.

One extraordinary dispute occurred because the chairman of the British Electricity Authority (who was Walter Citrine, previously TUC General Secretary) wanted it to be known that he regarded the government's attitude to long-term investment in electricity supply as irresponsible. In this he was backed by Gaitskell, who had succeeded Shinwell as the Minister of Fuel and Power. Citrine contrived with Gaitskell to insert a paragraph in the draft white paper, stating that the BEA had protested about the proposed cuts in the post-1951 construction programme. There was then a heated discussion about whether a protest originating from the head of a socialised industry could be included in a public statement of government policy.⁽¹⁰⁹⁾ The offending paragraph was struck out. But the dispute showed that difficulties could arise between the head of a socialised industry and a government in the course of controlling investment, contrary to the view that it would be relatively easy to control the volume of public investment through the programmes of nationalised industries. In reality the heads of nationalised industries were in a strong position to push against any

policy regarded as not in the industry's interest - especially when the backing of the minister of the sponsoring department could be obtained, and when a complex set of priorities made it difficult to resolve government policy into consistent principles.

Table 7. Houses built in Great Britain - 1938, 1945-51

(Thousands)

<u>1938</u>	<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>
359.1	13.8	138.5	186.0	245.9	197.7	198.2	194.8

Source: Mitchell, B.R. & Jones, H.G. Second abstract of British historical statistics, 1971, p.116

One of the main objectives of the IPC exercise, as already mentioned, was to shift building labour into occupations which would make a more direct contribution to the export drive. To this end lower labour ceilings were established for the building programme. The Ministry of Works strongly resisted the idea of putting definite figures for labour ceilings in the White paper. On the face of it this was because of uncertainty about whether the ceilings would be met (the use of targets was generally under attack at this time for this reason), but in reality it was a rearguard action to preserve the building programme.⁽¹¹⁰⁾ It was also argued that the housing cut proposed by the IPC would result in unemployment in the construction and building materials industries,⁽¹¹¹⁾ which would further damage the image of economic planning. On this point the supporters of the housing programme had a small success: the housing cuts were reduced from £200 to £180m. This was nothing like total victory, but provoked Gorell Barnes to complain to Attlee that the government was displaying signs of weakness, "coming on top of what has widely been regarded as an inadequate Autumn budget". However, Cripps did

insist, when there was further argument over how specific the figures in the published programme should be, that there should be no glossing over the objective of shifting resources into export industries.(112)

Despite these internal wrangles, the government was determined that the public face of investment cuts should be set hard. One reason for this was clearly expressed at an official meeting about the 1948 dollar programme: "We are much more likely to get assistance if we show our determination to put our own affairs in order."(14/10/47) This was a reference to the growing prospect of ERP aid,(113) and raises the question of whether the real significance of the investment review was that it was a 'the first real achievement in economic planning', or a public relations exercise to fend off critics until a new dollar loan and economic recovery took the sting out of their arguments. As a 'real exercise in economic planning' the IPC certainly achieved the step of moving from general objectives to a detailed programme. Moreover, the government insisted that progress on the recommendations of the IPC should be monitored and followed up, a job which was given to the IPC itself. And judging by the packed agendas and numerous documents produced by the IPC in the following years it was one of the busiest and most important official committees in the central economic policy machinery.

Nevertheless, it remained to be seen whether the political and technical obstacles to implementation of the IPC report could be solved. This issue will be dealt with in the next chapter, but there is no doubt that the government retreated to some extent from the recommendations of the IPC. On this there is, for example, the evidence of a brief for a press conference on the Economic Survey for 1948 (in which account was taken of the efforts to trim capital expenditure in 1948).(114) It was thought that the press might ask whether reductions in investment programmes were really

being made on the scale promised in Capital investment in 1948. A strict answer would have to be "No", the brief writer warned. Three reasons were mentioned: (i) manpower on industrial building was currently higher, rather than lower, than in June 1947; (ii) additional timber was being released to prevent unemployment in the building trades ('This has not been announced and the Ministry of Health is opposed to its announcement'); (iii) it had been decided to permit additional building licences where unemployment was emerging. A rough estimate was that this meant an extra £35m on the building figure in 1948.(115)

VI

During the autumn of 1948 the prospects for borrowing more dollars became brighter. The government began to consider how any new loan would be used, and how bad the situation would be if aid was not forthcoming. At first, it was assumed that a new loan would just prevent things from getting any worse. Thus, on January 3rd 1948 Cripps gave the Economic Policy Committee a comprehensive account of the economic situation in the light of the work done on the Economic Survey for 1948, which Cripps thought revealed a grave situation.(116) The balance of payments position was worse than had been supposed, because the 'volume of exports that we are likely to make to the Western Hemisphere will probably not go as far as we had hoped in paying for the imports we have been assuming'. This made Marshall Aid necessary simply in order to avoid further drastic cuts in imports. More cuts would mean a drop in 'our already meagre standard of living' and cuts in raw materials from dollar sources, 'even to the point of causing serious unemployment'.(117)

Cripps, in one of his most austere moods, thought that the published version of the Survey should bring home to the public that Marshall Aid would be used for longer-

term recovery, and would not 'justify any relaxation of effort or afford any considerable improvement in the standard of living ... For American public opinion we should make it clear that we cannot make any substantial contribution to European recovery in general without Marshall Aid'.⁽¹¹⁸⁾ Even with aid the problems would not be negligible, Cripps was particularly worried that the restoration of the balance of payments might take longer than Marshall Aid could be expected to last.⁽¹¹⁹⁾ It is notable that he placed considerable stress on development of alternative sources of supply: 'our only real hope of permanent improvement in our balance of payments must lie in the expansion of the Sterling Area resources in foodstuffs and raw materials. The development of our African resources in particular is, therefore, of prime importance and must be a major consideration in planning our economic activities'.⁽¹²⁰⁾ On the export drive, Cripps informed the EPC that not only did the targets for the export programme as a whole have to be achieved, but the grave situation required a diversion of more goods towards markets in the western hemisphere. At the same time, 'The closer examination of the export targets and the greater knowledge of the limits that will be set by our steel supplies has shown the difficulty of reaching some of the targets', which had required the raising of other targets.⁽¹²¹⁾

The use of targets had become somewhat controversial by this time: there were differences of views between ministers and officials about their usefulness. Notes on progress towards the targets of the Economic Survey for 1947 had been formally abandoned in October 1947, because they had become an 'unreal' exercise.⁽¹²²⁾ Nicholson reported to Morrison on 2/12/47 that a report by the official Steering Committee on Economic Development on 'targets and their fulfilment' had been dropped.⁽¹²³⁾ Never-ending problems with supplies of steel and coal raised the question of whether realistic targets could be

set in the 1948 Survey. Cripps felt, in spite of the general debacle of the 1947 Economic Survey, that the experience with coal in 1947 showed that targets did encourage effort, and he recommended that targets for manpower and output should be set 'wherever possible in all the fields where production is of critical importance'.⁽¹²⁴⁾ The case of problems with textiles and undermanning in the 1948 Survey is worth special mention, because it was regarded as critically important to the export drive. The question was raised of whether there should be 'wartime' vigour in the drive for more textiles. The Ministry of Labour, consistent with their opposition to wartime vigour in manpower policy, wanted lower output and manpower targets for textiles in the Survey. The Board of Trade wanted an ambitious target of 325,000 for the workforce but conceded that no date should be set. What lay behind these hesitations was a lack of direct means to increase the workforce, a question which was taken up by the Production Committee during 1948.⁽¹²⁵⁾

Clearly, then, there were problems in every area of economic policy after the convertibility crisis. Drastic import cuts would have threatened living standards and the level of employment; furthermore, they were difficult to carry out because of the existence of long-term contracts. Cutting the armed forces meant giving up overseas commitments, which was opposed by the United States and caused misgivings in the government. At first it seemed that quick gains in the export drive could be made at the expense of domestic investment in plant and machinery, but this rather dubious course of action was ruled out by a combination of shortages of steel and inflexibilities in existing investment programmes. There were doubts, too, about the efficacy of cutting other investment in the hope that there would be a quick redeployment of labour and materials to export purposes. Finally, the financial pressures resulting from 'Fair

Shares' and stabilisation policy threatened to upset budget policy if inflationary pressures increased.

Thus, the techniques of economic planning provided no short-cut to reducing the pressures brought about by the draining of reserves, but the feeling grew that further dollar loans were a possibility - especially if Britain was seen to be 'putting its own affairs in order'. There was still a strong hope that the US government preferred lending to create international expansion, rather than forcing Britain into a siege economy. The development of the crisis policies during the autumn of 1947 should be seen in this context. This is not to suggest that the balance of payments and investment policies initiated in August were not taken seriously: at that time another dollar loan seemed a long way off, so the necessity for pursuing the siege economy was real, though it was not pursued all that far. And in the winter of 1947-8 the outlook was still very uncertain. Indeed, Attlee was warned about renewed pressure on dollar reserves in February 1948. There were also signs of a recession in the US economy, and the British economy was expected to face severe internal dislocation and unemployment if there was no ERP aid and the reserves were drained. Attlee's advisers even tentatively mooted devaluation.⁽¹²⁶⁾ As yet there was no definite sign that 1948 would be a year of recovery.

CHAPTER 5 - REFERENCES

- (1) CAB 134 503
- (2) Dow, J.C.R. The management of the British economy, 1945-1960, 1970, p.23.
- (3) Dow, op. cit., p.22.
- (4) See above, p.120-2
- (5) Dow, op. cit., p.24.
- (6) Various papers in T230 15-25, especially Meade in T230 15, and the interesting and sharp dispute between A.J. Brown and J.M. Fleming over 'Elasticities in external trade' in T230 21.
- (7) Balogh, T. in Worswick, G.D.N. & Ady, P.H. The British Economy 1945-50, 1952, p.482.
- (8) PREM 8 489 I
- (9) T 229 208
- (10) Dow, op. cit., p.25.
- (11) Dalton, quoted in Dow, op. cit., p.25.
- (12) PREM 8 489 I
Ministers: Attlee, Morrison, Dalton, Cripps and Bevin.
Officials: Eady, Bridges and Brook.
- (13) PREM 8 489 I
A very important problem was that a cut in imports and an increase in the export drive would intensify inflationary pressure in the domestic economy. There was pessimism from the officials about the possibility that a general rise in productivity would provide substantial relief from this difficulty. Bevin asked about this and was told that a 7.5% increase in one year would be needed, and that 1.5% was more usual. It was later realised that productivity had increased more than expected in 1947 (despite the fuel crisis). Thus, while Bevin was too optimistic if he expected the whole problem to be solved by a productivity increase, officials were being over-pessimistic in basing

- their assumptions on pre-war trends.
- (14) PREM 8 489 I
 - (15) CAB 124 1080
 - (16) PREM 8 489 I
 - (17) Perhaps not completely preposterous, the 'crucial' nature of the meeting between a miners' delegation and the Fuel Committee in March 1947 can be recalled. See above, p.169.
 - (18) PREM 8 495
 - (19) CAB 124 1080
 - (20) PREM 8 489 I
 - (21) PREM 8 489 I
 - (22) Dow, op. cit., p.24.
 - (23) T 229 103
 - (24) PREM 8 489 I
 - (25) PREM 8 489 I
 - (26) CAB 21 2199
PREM 8 493
 - (27) CAB 21 2199
 - (28) CAB 128 10 CM(47)67, 1/8/47 was the first of the meetings; Cabinets 68, 69, 70 developed the policies. At meeting 71, 17/8/47 the Cabinet was told of the worsening drain.
 - (29) PREM 8 422
 - (30) From the official announcement, quoted in Dow, p.27.
 - (31) CP(47)237, 22/8/47, Memo by Morrison.
 - (32) CAB 128 10 CM(47)74, 25/8/47
 - (33) CAB 21 2218 Note for the record, 2/9/47. The other officials were Nicholson, Hall, and Smith.
 - (34) CAB 21 2218
 - (35) CAB 21 2276
 - (36) CAB 21 2276
 - (37) CAB 21 2276
 - (38) CAB 21 2276
 - (39) CAB 21 2218
 - (40) CAB 21 2218

- (41) CAB 21 2218
- (42) CAB 21 2218
- (43) PREM 8 606
- (44) PREM 8 492 ^{H.m.the} King to Attlee, 26/8/47
- (45) PREM 8 606
- (46) PREM 8 606
- (47) PREM 8 640
- (48) PREM 8 833
- (49) PREM 8 833
- (50) PREM 8 833
- (51) PREM 8 833
- (52) PREM 8 833
- (53) PREM 8 833
- (54) PREM 8 833
- (55) PREM 8 455
- (56) CAB 21 2199
- (57) T 229 105
- (58) T 229 106 EP(O)(47)8, 20/9/47
- (59) T 229 111
- (60) T 229 111
- (61) T 171 392
- (62) T 171 392
- (63) T 171 392
- (64) T 171 392
- (65) T 171 392
- (66) T 171 392
- (67) Keynes, quoted by Balogh in Worswick & Ady (eds),
op. cit., p.480.
- (68) Franks, O.S. Central Planning and controls in war
and peace, 1947, pp. 16-18. The lectures were
delivered at the L.S.E. in February and March.
- (69) T 229 53-4 (Plowden was a member of the Dollar
Drain committee, so CEPS kept files on it).
- (70) T 230 8
- (71) Indeed, a similar policy was later implemented for
the whole of Europe in relation to the dollar area
through the Organisation of European Economic Co-

operation, a development of profound significance for the future of European economic integration. See below, p.259-63

- (72) T 172 2028
- (73) Robertson, D.H. quoted in Rosenberg, N. Economic planning in the British building industry 1945-49, 1960, p.11.
- (74) CAB 134 165
- (75) See above, p.122
- (76) CAB 134 170
- (77) The Minister for Overseas Trade, Wilson took over from Cripps at the Board of Trade when the latter was made Minister for Economic Affairs in late September 1947.
- (78) CAB 134 44
- (79) CAB 134 44
- (80) CAB 134 170
See ON(48)85 or E(48)24 for Ministry of Supply policy.
- (81) T 172 2031
- (82) CAB 124 797
- (83) CAB 134 635 PC(47)15, 14/11/47
- (84) T 230 8
- (85) CAB 134 608
- (86) CAB 21 1725
- (87) CAB 21 2244
- (88) See below, pp.251-4
- (89) CAB 134 44
- (90) CAB 134 44
- (91) T 222 213
- (92) T 229 66
- (93) CAB 130 27
- (94) T 229 66
- (95) CAB 130 27
- (96) CAB 124 452
- (97) T 229 21
- (98) PREM 8 491

- (99) PREM 8 428
- (100) PREM 8 491 Investment Programmes Committee, report, 9/10/47.
- (101) PREM 8 491 Investment Programmes Committee, report, 9/10/47.
- (102) Harrod, R.F. Are these hardships necessary? 1947, pp. 82-3. Harrod argued, simply, that the time was not right for putting resources into the development areas, because there was no threat of unemployment, "except through inability to buy materials abroad, and that, if it happens, will be due to our having devoted our resources to building factories instead of to the export of goods".
Harrod's solution was that workers should move to the places where they were urgently required.
- (103) PREM 8 491 Investment Programmes Committee, report, 9/10/47.
- (104) PREM 8 491 Ditto
- (105) PREM 8 491 Ditto, note by CEPS and the Economic Section, 9/10/48.
- (106) PREM 8 491 Ditto
- (107) CAB 134 639
- (108) Capital Investment in 1948, Cmd.7268, Dec 1947
- (109) T 229 66
- (110) T 229 66
- (111) PREM 8 491
- (112) PREM 8 491
- (113) CAB 130 27
- (114) Economic Survey for 1948, Cmd. 7344, March 1948
- (115) T 229 46
- (116) PREM 8 880 EPC(48)1, 3/1/48
- (117) Ditto
- (118) Ditto
- (119) Ditto
- (120) Ditto
- (121) PREM 8 880
- (122) T 229 45

(123) CAB 124 901
(124) PREM 8 880
(125) T 229 46
(126) CAB 124 901
CAB 21 2244 12/2/48

RECOVERY, DISINFLATION AND DECONTROL, 1948

During 1947, because of the fuel and convertibility crises, the government adopted measures that made economic planning at least potentially more effective. New priorities were set; the central machinery of government was changed to improve the co-ordination of different aspects of policy-making; steps were taken to make sure that policies were being 'progressed'; allocation systems were scrutinised in order to prevent haphazard distribution of scarce resources. These were emergency measures forced on the government by the crises, which caused a retreat from the idea of 'planning for expansion', and during the summer and autumn of 1947 it was not clear whether the restrictive policies adopted at the time of the convertibility crisis would have to be endured for months or years. In 1948 pessimism continued for several months; general anxiety about the balance of payments continued for the first half of the year. But it gradually became apparent that, for various reasons, the economic situation was changing for the better. For one thing, it was discovered that the economy had performed much better than expected in 1947. Output, productivity and exports had all risen satisfactorily, and continued to do so throughout 1948.⁽¹⁾ Also, during 1948 renewed dollar aid became certain, and apprehension about the consequences of import restrictions therefore receded.⁽²⁾ Thus, Hall was able to inform Attlee on September 15th 1948 that it was now clear how much ERP aid would be available, and that Britain was 'well on the way to recovery'.⁽³⁾ Finally, measures taken by the government were making some contribution to the economic improvements. This, then, was the changing background to continuing internal discussions: about financial policy; about the relationship between disinflation and decontrol in the short-term; about the export drive and the future form of the international economy; and about the control

of investment.

I

In a 1948 Economic Section discussion paper, the economy was compared to a coastline of jutting cliffs and inlets with sandy beaches. The cliffs represented controls, the strongest defences against raging waves of excess demand. The inlets, with congenial, gently sloping sandy beaches, represented normal markets. With disinflation the tide of demand would fall; more and more sandy beaches would be exposed; and at some point waves would no longer dash against the cliffs.⁽⁴⁾ This picture sums up an important change that took place with economic recovery in 1948: it became possible once again to contemplate ways to relax controls and return to the market economy, and with this came a return to the themes of economic policy advice that had been pressed rather prematurely in 1945-6. But the metaphor was invented to suggest the complexity of the relationship between disinflation and decontrol: it was no easy task to assess the extent to which conditions for the normal operation of markets had been restored and how far there was a need for continuing control. Nevertheless, the situation was transformed by comparison with the previous year.

The overture to the strategy of disinflation and decontrol pursued in 1948-9 began in the Autumn of 1947, when it still seemed likely that there would have to be more control rather than less, as inflationary pressure was expected to rise in the aftermath of the convertibility crisis. Indeed, it was the prospect of having to retain controls in the long-term that prompted a comprehensive review of the whole system; before this such a review had seemed unnecessary because controls were regarded as temporary.⁽⁵⁾ The review was directed by the Government Organisation Committee (GOC), chaired by Bridges, set up in October 1947 for the purpose of making

a general examination of the relations between government and industry; but the GOC soon turned to the more immediately practical task of reviewing controls.⁽⁶⁾ In December 1947, Brook wrote of the problems posed by economic controls, which he feared could affect adversely the size and integrity of the civil service, and industrial efficiency. These problems might change from irritants to dangers if the network of controls had to be maintained in the long-term; Brook therefore thought that the review should consider alternatives to controls, including fiscal measures.⁽⁷⁾ At the beginning of 1948, Bridges described the review by the GOC as forming 'a single plan for the general overhaul of government controls'.⁽⁸⁾

The particular question of the effect of controls on industrial efficiency was dealt with by a special committee on Controls and Efficiency (CE), chaired by Bernard Gilbert of the Treasury. The most important part of its terms of reference was: "To consider the economic questions arising out of the operation of controls".⁽⁹⁾ In the CE committee the running was made by the permanent secretary to the Board of Trade, Sir John Woods, who set out what he regarded as the fundamental flaws of price controls and materials allocation. In the case of price controls the main problem was that, even with wide variations in costs between different firms in an industry, the least efficient could remain in production, while most efficient earned 'excess' profits. (In the war this problem had been tackled by Excess Profits Tax, which was repealed after the war). The upshot was that the general level of efficiency was prevented from rising. Moreover, the sellers' market had virtually eliminated competition in many industries.⁽¹⁰⁾ In the case of materials allocation Woods identified two major problems: first, the calculation of allocations on the basis of shares of output in a former year (usually 1938) meant, as with price controls, that the more efficient

firms could not expand at the expense of the less efficient; second, there was no easy way to cope with 'new entrants' to an industry. Thus, both price controls and materials allocation were freezing the structure and efficiency of industry. To boot, trade associations and other forms of restrictive practices were thriving. Finally, there were inefficiencies resulting from the system of controls itself, which never quite fitted together.⁽¹¹⁾ Clearly, price controls and materials allocation were techniques only suitable for short-term use, they had to be either modified or abandoned, and the instincts of senior officials leant towards the latter.

The original purpose of the Controls and Efficiency committee had been to find ways to restore a measure of freedom in industry, and to enable market forces to influence production and efficiency. By mid-1948 the emphasis had changed: Bridges told the committee that ministers might call for urgent action in a deflationary situation which "might arise very soon" (15/5/48). Deflation appeared possible at this time because, from autumn 1947, it was an objective of budget policy to produce a substantial surplus of revenue over expenditure, in order to reduce aggregate demand.⁽¹²⁾ In this situation Bridges thought that two measures would be possible: "One would be to stimulate greater efficiency in industry and trade through easing or removing controls and thus facilitating a reduction of prices [Bridges had in mind that efficient firms would take advantage of decontrol to expand their output at the expense of the less efficient, and that this would lead to price falls]. The other would be to increase the amount of purchasing power available i.e. to reverse the deflationary trend by reverting to inflation. The latter would be disastrous, but there was a real risk of being forced into it if proposals on the former remedy were not available when called for". Hall agreed that "clear indications of the existence of a deflationary trend might well appear

within the next month or two".(13)

Budgetary disinflation (in combination with the expansion of output that was going on at the same time) could provide opportunities for relaxing controls. But the officials adopted a cautious approach because the danger of open price inflation still could not be ignored. Decontrol was viewed as a gradual process. The CE committee tried to identify particular cases where disinflation might allow the removal of controls. For example, they studied the boot and shoe industries, paint, furniture, radios, jam and some housing components. All the controls associated with these industries were scrutinised, and various examples were discussed. Memos were written on the goods most likely to be affected by disinflation.⁽¹⁴⁾ In addition, the Economic Section prepared regular reports on 'signs of deflation' so that departments could immediately take advantage of any opportunity to relax controls. The Board of Trade also issued a monthly 'disinflation' report.⁽¹⁵⁾

By August 1948 the CE committee decided that its own enquiries were 'palliative': it could recommend no major changes to the system of controls, and concluded that "a great deal of the success of any control-lifting policy depended on the liveliness of initiative of those actually in charge of operating the particular controls, though government policy was, of course, the dominant factor".⁽¹⁶⁾ The main questions for the future concerned materials allocation. Was it possible to remove them? Was it possible to rely on goodwill rather than direction or the threat of sanctions to achieve export targets? Studies continued during 1948 on materials allocation, and the steel distribution scheme in particular.⁽¹⁷⁾ But it had to be reluctantly concluded that there was a limit to the process of decontrol. Both the deliberations of the administrators and the theoretical discussions of the economists backed up wartime judgements about the central

importance of controls over raw materials in the transition. Although both groups would have preferred to get rid of more controls, and could bring formidable arguments to bear in favour of decontrol, conditions were not yet ripe.⁽¹⁸⁾ In a paper on 'Alternatives to materials allocations', Dow argued that it was difficult to remove administrative allocations altogether, or even to modify the existing controls. Price controls were difficult to envisage as an alternative to allocations, because while raw materials were scarce, a firm hand would be needed on all end-products. In another of the Economic Section's useful hydrological metaphors, Dow imagined the economy as equivalent to a river system ending in a delta. Raw materials controls were like a dam on the higher parts of the system, whereas price controls and rationing of end-products operated down in the delta - where the few broad rivers of raw materials turned into innumerable smaller streams of commodities, whose prices had by then been formed in complex ways. Therefore, while there were scarcities there must be administrative controls, though he thought that raw material prices could be increased in some cases.⁽¹⁹⁾

The key raw materials, those allocated by the Materials Committee, remained relatively unaffected by the 1948 relaxations of control.⁽²⁰⁾ But, as the permanent secretaries on the Controls and Efficiency committee probably hoped, there was a veritable fashion for decontrol among those operating the many controls affecting the 'delta' of the economy. The basis for this was laid by Cripps when, at the end of October 1947, soon after his appointment as Minister of Economic Affairs, he asked the Treasury to give 'every possible support' to Harold Wilson in streamlining the staff of the Board of Trade.⁽²¹⁾ As a result, special machinery was set up in the Treasury's Organisation and Methods division. Later, 'Examiners of Controls' were appointed for the Board of Trade and several other departments. The Examiners met as

a 'Co-ordinating Committee on Controls' (CCC), chaired by P.D. Proctor,⁽²²⁾ and its records show that it pushed hard for general decontrol, including the dismantling of raw materials controls. This led to a strange situation in which there were, in effect, two opposite developments in economic policy machinery initiated soon after the convertibility crisis: one aimed at increasing the effectiveness of economic planning; the other aimed at dismantling the apparatus of economic control as fast as possible. It would be possible to regard the two aspects of policy as the practical consequence of the general principles of controls policy - dispensing with useless controls and making necessary controls work effectively - but this would ignore the fact that there was an internal argument about the future direction of policy. In particular, the organisation of the CCC was strikingly similar to CEPS' Economic Planning (Official) committee, and it is tempting to speculate that the former was consciously designed as a foil to the latter. The aims of the two committees were clearly in conflict insofar as the implementation of plans depended on controls.

The idea of departmental Examiners of Controls was the initiative of the Board of Trade, which had the most ramified system of controls.⁽²³⁾ The Examiner appointed to the Board, in February 1948, was L. Merriam, managing director of BX Plastics Ltd., who had been wartime Plastics Controller at the Ministry of Supply.⁽²⁴⁾ Merriam organised the famous 'bonfires' which were presented in Parliament by Harold Wilson as great steps in decontrol, though there was less to this claim than met the eye. At the time of the first 'bonfire', in November 1948, the Government Organisation Committee was told that the 200,000 licences 'burned' would not save much manpower. Brooks wrote to Bridges: "I hope that the Treasury will not sit down under the statement that an administrative simplification described by a minister in such glowing terms yields no substantial economy in

Civil Service man-power".(25) The licences, it transpired, had been issued by 53 staff: more than half were permits for the purchase of vacuum flasks, issued more or less automatically by 26 regional officials. Woods thought that this was an example of administrative efficiency, and professed himself surprised and irritated by the suggestion that 'the splendour of any relaxation of controls is to be measured by the number of civil servants dispensed with as a result'. He claimed that the Board had reduced its staff considerably, but not through the 'bonfire'. As he pointed out, large numbers of civil servants were involved in rationing the public, not in regulating manufacture or rationing industry. Clearly piqued, Woods asked: "could we add this correspondence to the bonfire?".(26)

As Examiner of Controls, Merriam used a simple criterion for decontrol: if allocations were not taken up in full, it was time for relaxation. This was how the 'bonfires' were built. But he confessed later⁽²⁷⁾ that at first he had been 'bewildered' by the profusion of controls and reasons for controls. He found that what he thought was a control was sometimes not regarded as such by those who operated it; and even at the end of two years he was not certain that he had covered the whole field. He identified three purposes for controls (i) allocation of scarce materials, or materials which cost dollars; (ii) control of manufacture and distribution of goods which were dollar earners; (iii) ensuring a 'sufficient proportion' of sound, inexpensive goods for the home market. According to Merriam, by the end of 1949 he had been reduced to 'rounding up isolated stragglers or discussing the few really baffling problems'; the latter often concerned the controls which remained, e.g. in softwoods and cinema film for newsreels. Here the main problem was to find some alternative to the 'base year' system, such as passing licences to consume back to merchants, so that efficient

firms could improve their market share. In general, he found that there was usually good information about supplies but it was often difficult to judge when shortages were coming to an end from the demand side. In Merriam's view another problem was that although the Board 'led the way' in decontrol, its hands were tied because it sponsored a number of industries whose raw materials were allocated elsewhere. The leading example was steel, which he believed could be partly decontrolled (many officials, including P.D. Proctor, agreed with him about this). As for an overall assessment of relaxation, it is significant that Merriam felt unable to present any illuminating figures. He had to admit, after the embarrassing experience of the 1948 'bonfire', that figures showing reductions in licences issued, though impressive, were misleading.

What conclusions can be drawn from this decontrol campaign? The work of the CE committee illustrates the tension that existed between the principles that senior civil servants would like to have followed and the practical situation they found themselves in. For them the controls clearly were an unsatisfactory hangover from wartime. They were looking for opportunities to re-establish the operation of market forces as far as possible within the constraints of government policy and the economic situation, but on both counts there were limits to the decontrol campaign. In particular, it proved easier to dismantle the more superficial forms of control operated by the Board of Trade, than to penetrate into the territory of the Materials Committee.

II

To some extent, as has already been mentioned, the prospects for decontrol seemed to depend on the success of financial policy, and on fiscal policy in particular, since the use of interest rates as a deflationary

instrument was still anathema. While Dalton was Chancellor it had been a common complaint that he did not do enough to reduce the pressure of monetary demand, an issue which came to a head in the autumn of 1947, over food subsidies. By contrast, Cripps' 1948 budget has often been seen as a turning point in economic policy. Certainly, it had a clear disinflationary aim: on the basis of arguments put forward by the Economic Section there was agreement to aim at a large budget surplus in 1948-9; on assessment of the inflationary gap the economic advisers proposed that this should be £500m.⁽²⁸⁾ In fact, the basic principle of disinflation through a budget surplus had already been implemented by Dalton.⁽²⁹⁾ A small surplus was actually achieved in 1947-8,⁽³⁰⁾ and later analysis has shown that Dalton's supplementary budget in the autumn of 1947 was responsible for most of the surplus of £628m achieved in 1948.⁽³¹⁾ How far this had a disinflationary effect, as compared with other favourable changes taking place at the same time, cannot be examined here. What is certain, however, is that senior officials and economic advisers felt that with Cripps they were beginning to get economic policy onto a better footing. Therefore, Cripps' Chancellorship marked a change of mood, even if the changes of substance had begun under Dalton.

Recalling earlier resistance by Treasury officials to making budget policy a part of economic planning, it is relevant to ask whether there were any significant changes after Cripps became Chancellor. An interesting exchange between Hall and Plowden reveals that budget-making was still a rather isolated and obscure process within the central machinery of government at the start of 1948. Hall wrote to Plowden about the Budget Committee: "I don't know whether this committee meets throughout the year ... But it seems to me that there are a number of problems about the general place of the Budget in the national economy which could profitably be

discussed at more leisure than we have had in recent months". Plowden replied that, like Hall, he was a newcomer to the Budget Committee, though he agreed that there was no time for 'fundamental' discussion, and also thought that there was a lack of basic economic knowledge on which to frame budget policy (a rather surprising judgement in view of the fact that the techniques of assessing the inflationary gap by means of national income and expenditure forecasting had been developing since the beginning of the war). Nevertheless, Plowden thought that the Budget was "now an integral part of general economic planning".(32) Cripps's general approach, in his Budget speech in Parliament, bears this out.(33)

In April 1948 there was a meeting to discuss the issues raised by Hall, who wanted a much more general forward look at budgetary prospects and policies. Hall wrote that he was worried about the high incidence of taxation and its general effects on incentives of workers and capitalists alike; he felt that income tax should be reduced and super tax should not be increased.(34) With this in view he saw a need to further reduce government expenditure as a top priority, especially expenditure on food subsidies (which was still increasing).(35) The outcome was a 4-year budget policy paper, in which there were no fundamentally new ideas, but which should be viewed in relation to previous opposition from some Treasury officials to the idea of making budget policy a part of economic planning: a similar suggestion for forward budget planning, made by Meade several years earlier, had been cold-shouldered by Gilbert.(36) Therefore, the opposition to expanding the role of the peacetime Budget, which existed from the time of the reconstruction discussions onwards, seems to have been overcome in 1948, allowing the Budget to move into the centre of policy-making in the following years, when it came to be regarded - at least by officials - as the main instrument of planning.

The most probable reason for the change of attitude from the reconstruction discussions and those of the early post-war years was that the emphasis had changed towards budget surpluses and control of public expenditure in inflationary conditions, as against budget deficits and increases in public expenditure in recessionary conditions. This was more acceptable to the traditionally-minded because it did not involve the danger of political profligacy. Moreover, a very important consideration in the short-term was that disinflation was the precondition for decontrol, and a budget surplus was seen as the main instrument available to push the process of disinflation along. Under Cripps, as under Dalton, the option of 'disinflation by rising prices' was ruled out: Cripps continued to stick to the policy of stabilising the cost-of-living index, which was as important as ever following the government's success persuading the TUC, in early 1948, to agree to wage restraint as laid out in the Statement on personal incomes, costs and prices.⁽³⁷⁾

Thus, during 1948 there came into being a close connection between budget policy, disinflation and decontrol. As the balance between the importance of physical controls and financial policy altered, there was some tension between those responsible for the different aspects of economic policy. This is clear, for example, in the deterioration of relationships between the Treasury and CEPS during 1948. (CEPS moved into the Treasury when Cripps became Chancellor in the autumn of 1947, but retained its separate identity and role). CEPS had been made responsible for progressing economic plans after the convertibility crisis, but it is questionable whether it ever achieved the authority that it required to carry out this task effectively. Although Plowden sat on key financial policy bodies such as the Budget and the Dollar Drain committees, CEPS as a whole continued to work mainly on 'physical' policy-making, whereas the

Treasury still held sway over financial policy, and its traditional role vis-a-vis the departments began to be reasserted as the special conditions of wartime were replaced by the new peacetime concerns already outlined.

Indications of CEPS' difficulties are contained in the report of a 1948 working party on 'Treasury administration and modifications of Economic Surveys and Long-term programmes'. This resulted from a complaint by CEPS that changes in economic policy were being made without CEPS being informed. For example, during 1948 clothes rations were increased but CEPS only heard about it afterwards (the Treasury claimed to have been ignorant about this change as well). CEPS was responsible for checking on the progress of policies, and in order to keep its work on long-term plans and Economic Surveys up to date it wanted to know about proposals which had implications for existing plans before they were accepted, hence the setting up of the special working party.⁽³⁸⁾ The report of the working party concluded that most points were already covered by normal liaison. While agreeing that there had been changes which affected the Survey policies (which were still supposed to be strictly adhered to) the working party concluded: "We do not think that the Treasury Divisions can undertake any further police work which would not make undesirable inroads into the responsibility of the departments themselves". It was also out of the question for the Treasury to acquire information purely to pass it on to CEPS. Plowden was left to appeal as best he could to department heads to give CEPS the information it needed.

So the report did not uphold CEPS' complaints to any significant degree: the impression given was that good work was already being done. However, it did envisage that liaison between the Treasury and CEPS would have to become closer for another reason. The working party noted that 'physical factors often impose more stringent limits than do financial proposals', hence it was 'often tacitly

assumed that finance will be forthcoming to cover whatever physical resources are allocated'. However, 'Sooner or later ... the financial considerations must become relatively more important'; indeed, they would 'probably become so by 1950'. Links between CEPS and the Treasury would have to become closer: 'so that the purely financial implications of 1950 programmes can be watched during the formative stages more closely than had been thought necessary for earlier Surveys'.⁽³⁹⁾ Thus the tables were neatly turned: an enquiry into why CEPS was not being informed about impending economic policy decisions was turned into an augury of the ascendancy of financial policy over physical planning - and therefore of the ascendancy of the Treasury.

III

The basic elements and early development of the new policy on the balance of payments initiated after the convertibility crisis were analysed in the last chapter. It was shown that export policy was particularly important: export markets became 'desirable and less desirable'; and the priority of supplying more exports was to be superimposed on the allocation and control systems. As might be expected, the economic improvements that became evident during 1948, and the thinking about disinflation and decontrol discussed above, influenced the further development of these ideas. In general, the pressure to carry through unpopular and difficult administrative direction of exports was reduced, though the export strategy was energetically pursued, as is evident from the records of the committees which had the duty of seeing it through. The immediate responsibility belonged to the Exports Committee, under Harold Wilson, and the official Export (Plans) committee. The Exports Committee was kept very busy, dealing with a fluid situation: it made a monthly report on export figures,

divided by commodity and by country, and set out as actual and forecast percentages of export performance in 1938.(40) There were numerous detailed discussions about hard and soft, desirable and less desirable markets.(41) The purpose of all this activity was to keep targets and programmes realistic, and to achieve them by increasing supplies and providing guidance, where necessary keeping firms in line with a combination of discrimination in materials allocations and other measures.(42) The policy had some success: between 1947 and 1948 exports rose by a quarter, and as Dow comments: 'it is difficult not to believe that this was due in large part to the system of export targets, which had been agreed in considerable detail with all the main industries while Sir Stafford Cripps was still at the Board of Trade'(43) (subject, of course, to changes due to steel shortages).(44) But all this evidence of immense energy begs the question of whether the government was able or willing to do much more than state the targets to be aimed at and lay down guidelines for achieving them.

At the time of the convertibility crisis there was certainly a greater will than there had previously been to solve the problems of how to use controls to encourage more exports; but nothing had changed the nature of the problems since wartime studies had emphasised the difficulties. One general problem was that because there was no precise correspondence between the effects of controls and the balance of payments almost any existing control might be relevant.(45) In principle, any resource controlled by a government department in any way could be used to shift the balance of economic activity towards the export drive: a policy of discrimination. A broad range of production licences and material allocations could theoretically be made conditional on agreements to export, and could be revoked if export performance was unsatisfactory. In the autumn of 1947 the Board of Trade began an enquiry into discrimination in the allocation of

scarce resources,⁽⁴⁶⁾ asking other departments to answer a number of questions, the answers to which provide some indication of how far dirigiste methods were actually being used in the export drive:

"(a) How much are we discriminating? on the basis of export performance? Have we tightened up?

(b) What is the existing practice?

(c) To what extent is discrimination towards firms exporting to hard currency markets, and whose output goes more (as a proportion) to dollar markets?"⁽⁴⁷⁾

Replies from departments show that there were few areas where discrimination was already firmly established, and little enthusiasm for a strong policy. Specific discrimination in favour of dollar-earners was said to be difficult without a detailed knowledge of export markets.⁽⁴⁸⁾ Points were made about cases where the home market had priority over exports (to back this up there was a system of export licences covering items such as hand-tools for use in building). Moreover, the Raw Materials Department of the Ministry of Supply pointed out that, to be effective, a policy of discrimination would have to take into account all the inputs used by firms manufacturing for export - the example of glue was given.⁽⁴⁹⁾ To iron out such difficulties would require more staff, but it was an important aim of the government to streamline the civil service. This is not to say that there were no cases of discrimination in favour of exporters in making allocations. The examples of paper and leather were given by RMD.⁽⁵⁰⁾ The Ministry of Supply replied that in the case of steel and some other commodities it made separate allocations for export, with the implied threat that allocations were dependent on targets being achieved.⁽⁵¹⁾ But the overall impression was given that discrimination was not being applied on any large scale, and though the possibility of controls being used in the export drive was kept in mind during the decontrol campaign this did not hold up the

dismantling process in any important way.

There was a similar outcome to attempts to find other methods of pursuing the export drive, which was the responsibility of the official Export (Plans) committee. One of its more radical steps was to recommend a policy of supervising the order books of heavy engineering firms. This was done by the Ministry of Supply in conjunction with the Board of Trade.⁽⁵²⁾ But the Ministry of Supply made much of the drawbacks: the specialised firms that existed in the industry; its fragmented organisation; the misleading picture given by perusing order books; and the problems of respecting commercial secrecy.⁽⁵³⁾ Later, the Export (Plans) committee had a specific discussion on the distribution of exports of capital goods - and came to a very negative conclusion about the possibilities of government action: "The difficulty of applying discriminating incentives or sanctions to secure adjustment to the distribution of exports of capital goods between the various markets and the necessity of having to rely primarily upon the co-operation of industry to secure the desired results must, broadly speaking, be accepted".⁽⁵⁴⁾ Of course, the export of capital goods presented a particularly knotty problem. True, overseas demand was high, and so there was little difficulty in selling anything that could be produced; but domestic demand was also high; while total supplies were particularly affected by steel shortages. There were those who pointed out that the immediate relief to the balance of payments from short-term increases of capital goods exports could turn to disadvantage in the longer-term as overseas competitors re-equipped while domestic re-equipment was being held back in the name of the export drive. The worst of these fears were removed by the shift of emphasis away from engineering exports late in 1947, and by the easing of steel shortages during 1948. But the argument was still heard: capital exports in 1948 were above the target

Table 8. Steel consumption in the United Kingdom, 1937, 1943, 1946-50

(Million ingot tons)

Year	Steel						
	Ingots and cast- ings made	from (+) or to (-) steel- makers stocks	Re- usable steel	Im- ports	Ex- ports	Net ex- ports	Home deli- veries
1937	12.98	-0.08		1.48	2.92	1.44	11.62
1943	13.03	+0.20	0.25	2.77	0.12	-2.65 ^a	16.13
1946	12.70	+0.15	0.81 ^b	0.48	2.30	1.82	11.64
1947	12.72	+0.30	0.85 ^b	0.46	1.73	1.27	12.60
1948	14.88	-0.16	0.63 ^b	0.50	1.98	1.49	13.87
1949	15.55	-0.25	0.52	1.09	2.36	1.27	14.55
1950	16.29	-0.11	0.48	0.56	3.15	2.59	14.29

Only the figures for ingots and castings are precisely comparable before and after 1946.

^a Net import.

^b Presumably inflated by disposals from war stocks.

Source: D. Burn, The Steel Industry 1939-59, 1961, p.135

level, and there were worries that this success might strengthen competition from US firms in overseas markets in the future. So there were continuing doubts about how far the policy of increasing capital goods exports should be pushed.(55)

When the decision was made to change the emphasis of the export campaign away from engineering products, in the autumn of 1947, the government decided to put more effort into increasing the export of textiles.(56) This policy was also not an easy one to implement. If the industry could not be expanded, more exports entailed a cut in the clothing ration. Expansion could be achieved

by faster re-equipment, but this would require cutting back on exports of textile machinery, for which demand was especially buoyant. Moreover, textiles had been suffering from severe labour shortage since before the end of the war; the workforce had to be expanded or persuaded to work harder or longer. The campaign to increase textile exports was taken on by the Production Committee, and Douglas Jay, Economic Secretary to the Treasury, had particular responsibility for it. But effective policy instruments were limited. Labour controls could not be used, as had become evident long before; therefore the government depended such ideas as encouraging the provision of day nurseries to attract more women workers into the industry. Some effort went into such measures,⁽⁵⁷⁾ and the textiles labour force did grow, but in the end it was higher wages that eased the problems of labour shortage, rather than any factor under the direct control of the government.⁽⁵⁸⁾

Table 9. U.K. textile industries labour force, 1938, 1945-51

(Thousands)

	<u>1938</u>	<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>
Total.....	859	469	536	576	678 ^a	703	728	732
Cotton.....	414	209	240	252	293	307	317	322

^a These figures are based numbers of insured persons. As a consequence of the National Insurance Act the number of insured employees probably rose by 10-15% in 1948.

Source: Mitchell, B.R. & Jones, H.G. Second abstract of British historical statistics, 1971, p.98

After the convertibility crisis, then, the government went into the balance of payments problem in fine detail, and strenuous efforts were made to inform exporters about

what was expected of them, but the government was unable to make much impact with its own direct effort. What emerges from an examination of the records of the export committees is that controls were still generally seen as difficult to apply. Although initially there was a commitment to increasing the supply and changing the pattern of exports by use of materials allocation and other measures, the use of discrimination in favour of exports proved elusive, if not distasteful. In this respect it was fortunate indeed that many of the supply constraints were eased during 1948. Even in wartime, with a large degree of public co-operation, priorities had been found to be unworkable once they got beyond a relatively simple aim like 'more planes'. The export drive was the third major priority to be established after the war, following those resulting from problems with the building programme in 1946, and the fuel crisis in early 1947. And each of these three priorities was in fact a complex set of priorities. By the summer of 1947 it was already clear that priorities had become over-complicated; policy-makers and the public were losing confidence; in this situation officials were reluctant to use discrimination or sanctions. Where controls were strongest the shortages were greatest; so, consequently, were the difficulties of formulating a clear set of operating criteria. This combination of problems was very evident in the case of steel allocations and engineering exports. It is not surprising that the Exports (Plans) committee came to the following conclusion during 1948: "The present pattern of exports is not ... the result of a detailed central plan enforced by government controls". Exhortation was the mainstay of government influence. Guidance of export of capital goods had proved particularly difficult,⁽⁵⁹⁾ and the use of direct physical controls was confined to a few cases. Moreover, "The existing memorandum on desirable and less desirable markets has not proved as clear and decisive as

we had hoped".(60) The difficulties that had been experienced with the post-convertibility crisis policies were to weigh heavily against adopting them anew when balance of payments difficulties recurred at the beginning of 1949.

IV

The convertibility crisis brought about a new set of balance of payments policies which were a specifically British response to the world's problems of transition from war to peace, as reflected in an acute dollar shortage. The real root of this shortage was that the United States had emerged from the war with a stronger economy than it had at the start, while most other economies were war-shattered or, like that of Britain, 'empty'. Unless the United States was prepared to undertake a vast programme of economic aid, as the convertibility crisis showed, the chances of establishing a liberal international economy were slim. Yet this fact was not enough in itself to create sufficient support in the United States for such a programme. The necessary extra ingredient was the growing conflict with the Soviet Union and the mission to defeat communist influence in western, and if possible eastern Europe. Even then, there was pressure to keep the amount of aid as small as possible. This led to a paradoxical and complex economic and political situation in which economic planning was promoted on an international scale, for the purpose of using United States aid as efficiently as possible, and reaching an international equilibrium at the earliest possible date.

At the same time, the concept of economic planning became entangled with the international ideological struggle. This is shown clearly by the fact that at the beginning of 1948 Attlee was being advised by Brook to play down the idea of planning in Britain's overseas

publicity.⁽⁶¹⁾ This advice was part of the preparations for a special Cabinet meeting to consider the general implications for foreign policy of increasing conflict with the Soviet Union. Bevin was intending to recommend to the Cabinet that the United Kingdom should make a bid for the "spiritual and moral" leadership of western Europe. To this end he thought that, as well as taking the offensive against Communism, the advantages of 'the alternative British system of Social Democracy' should be extolled. But Brook found it worrying that Bevin had included, 'among the features of the system which is to be held up as a model for Europe, some policies which belong peculiarly to the Labour Party' - in particular, planning. What was more, Bevin proposed to attack 'not only the principles and practice of communism, but also the "inefficiency, social injustice and moral weakness of unrestrained capitalism"'. Brook asked Attlee how this could be done without giving offence in the United States: American support might not easily be secured for a policy in which Britain gave a spiritual lead to Europe with publicity 'designed to show that the policies of the British Government represent a golden mean between the disastrous extremes of Russian Communism and American capitalism'. Brook suggested that controversy might be avoided if the government 'played down the economic planning and anti-capitalist aspects and laid the main emphasis on civil liberties, human rights and social and political justice'.

In case ministers were inclined to be careless of the consequences of their overseas publicity on public opinion in the United States, Brook was particularly blunt on one point: 'As regards the United States, may it not be better to face the fact that all the countries of western Europe including ourselves are dependent economically on the United States, with whom the economic power now rests ... ?' Britain could certainly make a political contribution, 'especially in view of the

political and administrative immaturity of the United States', and had already shown that it could 'assume the leadership among the European claimants to Marshall Aid'. In this role Britain would be 'by the side of the United States as her primary assistant in organising the economic recovery of Europe ... This would mean, of course, accepting a position in which we should be playing second fiddle to the Americans in the economic sphere. But is not that in accordance with the facts?'. In ^{the} event the Cabinet simply endorsed Bevin's publicity proposals, including the idea that the world needed a 'Third force' for 'freedom, planning and social justice'. The Cabinet Conclusions do not record whether Brook's criticisms were conveyed to the Cabinet by Attlee or in any other way.⁽⁶²⁾ His advice, however, provides an excellent insight into official attitudes towards the relationship between domestic policies and international affairs at this time, and it is fair to conclude that, being fundamentally opposed to the idea of economic planning, officials like Brook were not averse to using the economic dominance of the United States, and its ideological predispositions, as a lever against the policies that ministers were trying to follow. Something similar happened the following year, at the time of devaluation. Senior officials could not openly oppose the government's basic policy ideas; but by appealing to the force of 'reality', as demonstrated above, they could certainly attempt to undermine them.

It was therefore ironic that Marshall Aid, the very embodiment of American economic dominance, involved a form of economic planning to make it effective. In the first place it led to the fruition of the long-term economic forecasting effort started in January 1946,⁽⁶³⁾ which had aimed at predicting the prospects of industries and regions and the balance of payments at the end of the transitional period. The Long-term Economic Survey had been revised several times as assumptions were altered by

various crises.⁽⁶⁴⁾ In the summer of 1947, for example, a particularly pessimistic view of long-term prospects was drawn.⁽⁶⁵⁾ But once the OEEC initiative took root, and renewed American aid became a certainty, a new purpose was found for the Long-term Survey: it became the basis for the British case in negotiations and discussions about the size, distribution and uses of Marshall Aid. Moreover, the Economic Planning Board was told, during 1948, that pressure for more detailed planning was coming from the US, in connection with European recovery.⁽⁶⁶⁾ As a result of this, the forecasts and economic programmes of the countries which were to be recipients of ERP Aid were put together and compared. The basic thinking behind this exercise was to strengthen the OEEC economies while minimising the amount of Marshall Aid required to create equilibrium in a multilateral trading system. This use of the Long-term Survey was a perfect example of what E.A.G. Robinson (who had done much of the work on it) thought the objective of transitional economic policy should be: planning aimed at making planning unnecessary. Robinson himself became an economic adviser on the OEEC exercise.⁽⁶⁷⁾ The Long-term Survey was highly commended in a brief to Morrison dated July 15th 1948: 'it should be adopted for planning purposes. It is in fact the first considered basis for anything approaching long-term planning that we have had and is, therefore, a landmark'.⁽⁶⁸⁾ Nevertheless, it needs to be pointed out that this fruition of the Long-term Survey happened as controls were weakening, economic improvements were taking place, and the government generally had less strong intentions and means to direct economic activity. Several questions about the OEEC and economic planning therefore arise. What problems were discovered when the programmes of different countries were compared? Was the British government prepared to change its own plans as a result?

The most important problem for the OEEC that was

revealed, early on in the exercise, was that of massive visible trade imbalances.⁽⁶⁹⁾ In light of this it was proposed that other countries' plans be reviewed to see how they impinged on the British programme, and how they affected the European situation as a whole.⁽⁷⁰⁾ There were 19 programmes in all, of which the most important was the French. When the comparison was complete it was agreed that urgent issues had arisen.⁽⁷¹⁾ Indeed, there was an allegation that the OEEC was in 'chaos'.⁽⁷²⁾ A key example of the visible trade problem was that all countries were planning expansion of their textile industries,⁽⁷³⁾ and OEEC countries overall were planning to produce more textiles than they were intending to consume. This clearly had serious implications for Britain, which had put so much emphasis on increasing textile exports (indeed, during 1948 the Board of Trade asked CEPS to increase Britain's textile export target for 1949.⁽⁷⁴⁾ The OEEC exercise also discovered a 'shortfall' in demand for UK coal exports, which were once again becoming a possibility. Robin Marris of CEPS was candid about the policy options available to Britain, which were: (i) try to persuade other countries to take the coal exports; (ii) discourage foreign competition by maintaining that it was going to export the coal whether there was agreement or not; (iii) work on the basis that the export figure submitted by Britain had been an over-estimate anyway.⁽⁷⁵⁾ There were other similar problems which put a question mark over the degree of co-operation that could be achieved under the umbrella of Marshall Aid: it was estimated that there would be over-production of European steel in the early 1950's; despite this, France and Italy wanted to go ahead with their schemes to expand steel output. The question arose of whether Britain should consider cutting back its scheme, but the general feeling was that there was no need to say anything because the problem lay some way in the future.⁽⁷⁶⁾

Those who supported the OEEC exercise thought that it had at least revealed that the notion of Britain's viability had completely changed between the end of the war and 1949.⁽⁷⁷⁾ The policies agreed in the Autumn of 1947 had been viewed purely from the view of getting the British balance of payments into order and maintaining the stability of Sterling. The OEEC exercise put this into the context that nearly all countries were planning an export drive similar to Britain's, and that this would lead quickly to over-production and imbalance in the European economy. But would the countries co-operate in overcoming these problems? There was a wide range of views about economic planning among the OEEC nations. The Swiss followed an extreme laissez-faire approach and had no plan. Robinson commented: "The Swiss representative seemed to assume that an invitation to even think about the problems of the future represented an attack on his ideological virginity".⁽⁷⁸⁾ On a French paper, Robinson's observed, by contrast, that "it was as if OEEC was seeking to organise a super cartel and an epoch of restrictionism".⁽⁷⁹⁾ Also, there were numerous doubts about the accuracy of estimation and forecasting on the part of other countries, and Britain was the only country to submit its report on time.⁽⁸⁰⁾ From Britain, one comment on the OEEC exercise was that there was no possibility of a 'European Plan' because no-one was prepared to make changes. This also applied to Britain: when some countries asked for changes in agricultural policy, it was argued that this was not possible because ministers were 'committed' to the policies put forward to the OEEC.⁽⁸¹⁾ There were even those extremists, like Donald Butt of the Economic Section who saw the whole OEEC exercise as a waste of time, as mere 'Numerology'.⁽⁸²⁾

On balance, the OEEC planning did not reinforce the idea of economic planning in Britain. This was partly because cold water was thrown on many of the ideas for an

export drive that the government had developed in 1947-8. The OEEC exercise therefore reinforced the doubts that had arisen from the efforts to implement the post-convertibility crisis balance of payments policy. In this respect it is interesting that the OEEC exercise coincided with the virtual elimination of targets from the Economic Surveys,⁽⁸³⁾ and a suggestion by the chairman of the Exports Committee that all export targets should be abandoned except for those to the US and Canada.⁽⁸⁴⁾ This latter point underlines the fact that one balance had been left out of account in the amalgamation of economic programmes: the trade between the lender and the borrowing nations. The US recession of 1949 brought this problem to the forefront, and led ultimately to the necessity for devaluation, which is dealt with in the next chapter.

V

Parallel to the issues arising out of the OEEC exercise, there were other issues of economic planning relating to Europe. These were the years when the groundwork for the future European Economic Community was being laid, through discussions and agreements about economic integration. The British attitude towards this was one of detached interest rather than wholehearted involvement. Donald Butt of the Economic Section made a comparative study of French and British economic planning in 1947, without coming to any positive conclusions.⁽⁸⁵⁾ At this time the French were keener on British involvement in intra-European economic integration than they were in later years. Indeed, Monnet - the architect of French economic planning - suggested to Plowden in February 1949 that the Central Economic Staffs of both countries should sit down together and look at the Anglo-French economy 'as one', instead of adopting a nationalistic stance, as had been the rule up to then.

Plowden replied, evasively, that CEPS could not work independently of the United Kingdom official machine. There was a polite interchange of information about public and private investment programmes but Monnet's suggestion came to nothing.(86)

The government was interested in the development of European economic integration, but kept apart. Various papers written at this time on France and Germany, and an 'assessment' of Monnet's 'philosophy' about Europe display a marked reluctance on the part of British officials to get involved.(87) It is not possible to go deeply into this question here, but disenchantment with the OEEC exercise played a part. Also, the significance of European economic integration for the future was not fully recognised. This was partly because the rate of economic recovery in Europe was underestimated, but also because there was a strong feeling that the principles underlying the emerging forms of European economic integration would conflict with the axioms of British economic policy. The dominant British response to the idea of European economic integration, was that it went against the spirit of Anglo-US sponsored multilateralism, and would turn out to be a kind of siege economy.(88)

Consistent with this view, too, was the attitude towards the possibilities for organising some degree of economic autarky within the sterling area. It will be recalled that sterling area development was one of Morrison's concerns in his memorandum on 'Planning for expansion', and that Cripps made much of its importance in early 1948.(89) So, it is worth expanding briefly on the progress of policy on sterling area development. Chief of the Imperial General Staff Montgomery visited Africa in December 1947, and on his return he advocated a quick and vigorous development of Africa as part of the 'Western world'. The Secretary of State for the Colonies opposed the idea of controlling colonial development from London, saying that there was already a

plan for African development and that Montgomery had over-estimated African resources.⁽⁹⁰⁾ Also, in early 1948 Attlee was given a 'sober' assessment of the most ambitious project already underway, the East African groundnuts scheme;⁽⁹¹⁾ this was not yet infamous as a bungled operation,⁽⁹²⁾ but exaggerated expectations were being trimmed, and it was clear that no quick gains would be made. Furthermore, Brook cautioned Attlee that ministers should beware of being accused of 'Imperialism', pointing out that being too explicit about a policy of colonial development could shock government supporters, a point which Attlee noted that he agreed with.⁽⁹³⁾ After Montgomery's report and this exchange between Attlee and Brook a Colonial Development Working Party was set up, chaired by Plowden. Its main conclusion was that the rate of development was crucially limited by the availability of materials. The government decided that it would concentrate efforts of colonial development on improving the infrastructure.⁽⁹⁴⁾ During 1948 a Colonial Development Corporation was set up, with total resources of £100m;⁽⁹⁵⁾ but the policy clearly did not achieve the 'prime importance' which Cripps suggested it should have at the EPC in early 1948.

Thus, from events in 1948 it becomes clear that there was not much enthusiasm for any of the forms of economic planning associated with external economic policy. The initially determined response to the convertibility crisis was not followed by the use of controls to any extent. This was partly because of the problems involved, and partly because the emphasis of policy and economic circumstances changed in ways that made their use less important. Although the OEEC planning exercise was important in revealing the contradictions between the programmes of different countries, acceptance of international co-operation in economic planning in this context cut across purely British plans that had been formulated previously. Furthermore, the British

government proved to be unenthusiastic about European integration in the longer-term, or in any further ambitious developments within the sterling area. Exports to North America were still seen as very much the priority for further policy developments, and this set the scene for the events of 1949: an export drive - 'Operation Columbus' - to overcome an emerging American recession, and when that proved insufficient, devaluation and the various domestic policy-changes that followed in its wake.

VI

The initial work of the Investment Programmes committee in 1947, leading to the publication of Capital investment in 1948 was dealt with in the last chapter. The IPC was responsible for monitoring the progress of the policy, as well as for formulating means of overcoming the problems arising from the efforts to control building, and plant and machinery. In 1948, broadly speaking, the IPC discovered that the outcome of investment programming did not conform closely to what had been intended, though accurate estimation of actual investment was difficult. Moreover, both the building and the plant and machinery aspects of the investment programme ran into problems during 1948.

Early in 1948 the IPC asked departments to submit statements showing the progress on investment in 1948, and the extent to which the policy was likely to be fulfilled. The results of this enquiry caused the committee to state, quite baldly: 'Contrary to the expectations of the white paper on capital investment in 1948..., investment in the current year is likely to exceed the level achieved in 1947'. This must be compared with the original aim of an 8% overall reduction. In building, the total labour force had increased; the level of plant and machinery investment was expected to be more

than forecast, and to have a different structure.⁽⁹⁶⁾ According to the IPC, in the case of building, the main reason for the difference from the planned outcome was a change of policy on housing. In the case of plant and machinery, the main reason was an underestimation of the lag between trying to reduce plant and machinery output and actual reductions in output: 'Where the production cycle of plant and machinery is long or where substantial commitments have got underway, it is not possible to make rapid changes without considerable dislocation and probably net loss'.⁽⁹⁷⁾ For this reason it was recommended that a planned reduction in goods vehicles deliveries to the home market be delayed until 1949.

The IPC also stated that there had been miscalculations in the original investment programme. For example, the original plan had been to reduce industrial building by concentrating resources on the most important projects, but it had turned out that there were many more important projects than at first thought.⁽⁹⁸⁾ 'As a result of these changes in the pattern of investment, the forecast 8 per cent decline between 1947 and 1948 is unlikely to take place. Instead it is estimated that there will be a rise of about 5 per cent'. This was an astonishing conclusion in light of the significance that had been attached to the original exercise, although there had been some changes in the economic climate that made ministers and officials more sanguine than they had been in the Autumn of 1947. But this was not the end of the story. In its third report, in 1949, the IPC stated: 'For the principal sectors of investment ... latest estimates of investment actually carried out in 1948 show a substantial reduction compared with the estimates made a year ago in our second report'. Shipbuilding, roads, railways, iron and steel and electricity had all performed less well than expected; while housing and private manufacturing had performed better. Investment in 1948 had probably increased by about 2% over the

original forecast, as against the original aim of an 8% fall. The IPC went on to point out that the previous overestimate in the investment forecast (made in 1948) had affected the forecast for 1949: 'insofar as the original programmes for 1948 were not attained, the amounts approved for 1949 and published in the Economic Survey are also too high'.⁽⁹⁹⁾ The upshot of all this was that what had bravely set out to be 'the first real attempt at economic planning' had confirmed in full the views set out in the 1944 white paper, and on numerous other occasions, that investment - though the most

Table 10. Gross Fixed Investment, 1948 and 1949, from the third report of the Investment Programmes Committee
(£M. 1948 prices)

	1948	1949	
	As estimated	Latest	approved
	May 1948	estimate	
Fuel and power	201	164	220
Transport and Communications	304	287	297
Shipping	97	77	62
Agriculture	92	84	91
Iron and Steel	46	34	50
Manufacturing Industry	377	400	430
New Housing	300	322	253
Other Social Services	68	70	107
Administration and Defence	59	58	72
<u>TOTAL: principal sectors</u>	<u>1544</u>	<u>1496</u>	<u>1582</u>
Northern Ireland	23	30	41
Miscellaneous	455	480	480
GRAND TOTAL	<u>2022</u>	<u>2006</u>	<u>2103</u>

(Note: miscellaneous includes machinery and equipment, and constructional work apart from new housing, e.g. maintenance).[†]

Source: Public Record Office⁽¹⁰⁰⁾

desirable aggregate to influence in theory - would prove very difficult to control in practice. It is notable that the areas that performed worse than expected were the infrastructural programmes, such as Fuel and Power and Transport and Communications, under the aegis of central departments; whereas those that were mainly under the control of local authorities, such as new housing, performed better than expected. This confirmed the studies of investment control that had been made earlier.

When the operation of the controls affecting investment is examined it is clear that there was either very little attempt to use them or serious problems were created when they were used. An important case in point is that of building controls. As part of the overall review of controls initiated in the Autumn of 1947, those relating to building were examined in a separate operation. A review of building controls had become urgent because there had previously been problems with achieving the aims of the building programme and because there had been many complaints about the clumsiness of the licensing system.⁽¹⁰¹⁾ Businessmen generally did not understand or did not accept that industrial building should be subject to detailed controls; while they often called for curbs in investment in housing, they did not believe that factories should be similarly limited. The government, meanwhile, was determined to preserve its social as well as its industrial priorities.⁽¹⁰²⁾

The building controls were extremely complex. There were separate administrative procedures to deal with location, timing, and finance, involving a number of different departments, and both regional and central machinery. The changes made as a result of the review did not significantly alter the situation, because in the climate of investment cuts there was no incentive to simplify the licensing process, and although some changes were made, obtaining a building licence remained a difficult procedure. This was frustrating from two points

of view: that of the government, which was attempting to operate priorities affecting types, timing and location of building; and that of firms which wanted to make new investment in buildings.⁽¹⁰³⁾ After the convertibility crisis there was particularly acute rancour on the part of some firms which had gone through a lengthy and complicated procedure to get building licences, only to get caught by the freeze on industrial building agreed as a result of the IPC's work. Thus, although the government could use building controls to put obstacles in the way of new building, this generated frustration and lost goodwill.

Closely connected with the declining acceptance of the government's use of economic controls were problems with the integrity of the controls. A raw material control closely involved with building, where there were internal complaints, was timber. In May 1948 a letter to CEPS from M.I. Michaels of the Ministry of Health claimed that there were signs of breakdown in the operation of the control. Michaels had raised the matter at the Materials Committee; but, "Russell Latham of Timber Control is a great believer in the virtue and integrity of timber merchants". Michaels tried to reconcile the stock of timber over a period of time with the known issue of timber licences, and found that the fall in stocks coupled with the known imports was greater than could be accounted for by the issue of licences.⁽¹⁰⁴⁾ Subsequent enquiries by CEPS confirmed that there was a leakage, but the conclusion was that the discrepancy was within the margin of statistical error, and was not enough to warrant action. Michaels, in subsequent correspondence, stuck to his point: he claimed that about 10% of total timber consumption was going 'astray'.⁽¹⁰⁵⁾ This type of problem underlines one of the reasons why senior civil servants were keen to get rid of controls: they did not want the reputation of the civil service to be destroyed by a succession of black market scandals or rumours of

scandals. Later, in October 1948, as part of the effort to simplify building controls, it was agreed to relax voluntary building materials controls agreed in 1946, because of 'easy supplies', but also because the controls were being dishonoured, and this could bring the legally enforceable controls into disrepute. Cripps agreed that they should be dropped.(106)

The job of solving the problems involved in the control of plant and machinery was assigned to a special working party under the IPC, and its records show that it was not very successful.(107) There was little information to guide the operation of controls, few controls could affect the appropriate activities, and decision-making in the central machinery was diffuse. A key factor was the withdrawal of machinery licensing and control at the end of the war, which dried up the source of statistics. During the war there had been strict control of machinery via licensing of individual machines, and this was the basis of detailed statistics. Since machinery controls of this kind had virtually been abandoned at the end of the war, and the government was reluctant to re-institute them, there was little information to guide policy-makers. The government toyed with the possibility of re-instituting machinery controls following the 1947 crises, but this seen as politically undesirable. The government would have had better information, but the frustrations of licensing would have further raised the hackles of industrialists, as well as requiring more civil servants, and the trend of policy was towards simplifying controls and reducing administrative staff. Total investment in plant and machinery could be treated as a function of steel supplies, to a sufficient degree of approximation, but this was of limited usefulness. It could help with dividing steel supplies into totals for building and plant and machinery, but could not help with the division into plant and machinery of different types, or allocations to different end-

users, or division between export and domestic markets.(108)

In 1949 CEPS was reported to be still working very hard on the question of obtaining information about plant and machinery.(109) Also, in the June 1949 Budget a new scheme of depreciation allowances was introduced; but when there was a request for information about the expected effects of the scheme on demand for plant and machinery, it was admitted that no real information for the purpose was available.(110) To add to the problems caused by lack of information, at the centre there was a division of decision-making between different bodies. Overall allocation of steel was dealt with in the first place by the Materials Committee, and sub-allocations relevant to engineering were then made by the Ministry of Supply. There was an export targets committee and machinery for establishing the ratio of output that should go to export, while the IPC was responsible for the domestic side. Donald Butt of the Economic Section concluded, in a study of this machinery in early 1948, that there was a danger of 'utter confusion', especially if all these committees worked in parallel. (A type of problem was already evident from the difficulties arising from the parallel work of the IPC and the Exports committee).(111) In practice the IPC's working party on Plant and Machinery Sub-committee was restricted to actions such as the enquiry it initiated in mid-1948, asking for lists of plant and machinery holding up departmental programmes (including the work of industries 'sponsored' by departments as well as government projects). This enquiry produced a very long list indeed, but was a crude measure of the problems; there was no information that could give an accurate overall picture, and this aspect of investment policy never developed beyond a very primitive stage.

In attempting to control investment in building and plant and machinery, then, there were complex problems

for the planners, who had few means of solving them. In many cases, as a memo written in early 1948 makes clear, it was possible to arbitrate only on the basis of 'the volume of protest from one particular industry in comparison to the general level of hollering'.⁽¹¹²⁾ It is safe to conclude that planning decisions taken in this way could not produce the most efficient results, or even a quiet life. However, although lack of steel supplies, was expected to be a big problem in controlling investment and deciding priorities, it was much less of a difficulty than might have been expected on the basis of experience in 1947. Steel supplies was one area of the economy which improved substantially in 1948, and therefore reduced the need for very stringent control of investment in plant and machinery, or resolution of conflicts between exports and domestic investment.⁽¹¹³⁾

Despite the difficulties involved, the IPC continued to produce new investment programmes. Two later developments in its work are worth mentioning. The first was the realisation that it would be useful to take a longer look at investment: in 1949 the IPC started to look at investment trends up to 1952 on the basis of the forecasts submitted by departments; as before, departments were asked to specify their requirements in physical terms and an attempt was then made to fit them to what the IPC and the central policy machinery thought would be available. At the time it seemed that a more stable basis of investment forecasting was being established, however, this effort was overtaken by rearmament.⁽¹¹⁴⁾ The second development was that in its 1950 report the committee produced alternative short-term policies: one based on the assumption that financial limits that had been set to public expenditure; the other based on the assumption that there would be higher taxation to pay for it. The first development reflected continuing interest in pushing back the horizons of planning and forecasting, but was unsuccessful because of

continuing uncertainty. The second development reflected a more general move towards policies based on the control of public expenditure, and on taxation policies, rather than the more general approach to planning that had been adopted in 1947.⁽¹¹⁵⁾ At the same time, conclusions were being drawn about what instruments would be needed for the control of investment in the longer-term, in the context of the making decisions about the future of the legal infrastructure of controls; these developments are dealt with in the next chapter.

As far as the policy of economic planning is concerned, it is clear that the year 1948 presents a contrast to 1947. In the previous year the government had been driven to tighten up a wide range of economic policy machinery, and formulate its aims more clearly. With recovery there was a relaxation in this process. Indeed, the opportunity arose for a deliberate drive for decontrol, with the implication that in future the government would have to achieve its objectives using a much more restricted range of policy instruments. Compared with the effort put into disinflation and decontrol, little went into ensuring that the policies agreed in the Autumn of 1947 were carried into effect. Ministers relaxed the objectives; officials relaxed the controls. It was during 1948, in fact, that the stage was set for the operation of 'demand management'. Politically, it became much easier for the government to contemplate a budgetary surplus and other measures of financial disinflation in 1948. At the time of Dalton's supplementary autumn Budget in 1947 the main reason for the acute conflict with his officials was the fear of the effects of financial disinflation with a worsening supply position. Against a background of economic recovery, with some of the major problems of the previous three years receding, there was a change of approach which set the stage for further developments in policy during the devaluation crisis in the summer of 1949.

CHAPTER 6 - REFERENCES

- (1) In an economic report to the Production Committee it was estimated that productivity had improved during 1947; higher industrial output could not be explained just by a larger total work force. (CAB 134 638) Also, the Export Committee's report for January 1948 showed that exports for the first half of 1947 had been greater than expected, suggesting that previous estimates about the effects of the fuel crisis had been too pessimistic. (CAB 134 167)
- (2) T 229 130
- (3) CAB 21 2244
- (4) T 230 27
- (5) See above, p. 89
- (6) CAB 134 307
Also, Lee, J.M. Reviewing the machinery of government, 1977
- (7) There had been criticism of the review of controls that took place during the reconstruction discussions for not taking financial instruments into account.
- (8) T 222 213
- (9) CAB 134 89
- (10) CAB 134 89
- (11) CAB 134 89
- (12) See below, p.246
- (13) CAB 134 89 Controls and Efficiency committee,
15/5/48
- (14) CAB 134 89
- (15) T 222 214
- (16) CAB 134 89 Controls and Efficiency committee,
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- (17) T 222 214
CAB 134 89
- (18) T 230 28
- (19) T 230 28

- (20) Dow, J.C.R. The management of the British economy 1945-60, 1970, Table 6.5, p.175
- (21) T 222 213 Dow, op. cit., p.33 writes that the Treasury had a great influence on the Board at this time, because of Wilson's youthfulness in such a high post; but also, no doubt, because of the decontrol campaign in which the Treasury took a leading part.
- (22) T 222 214
- (23) T 222 213
- (24) T 222 213
- (25) T 222 215
- (26) T 222 215
- (27) T 222 217
- (28) T 171 394
- (29) Dow, op. cit., p.28
- (30) Little, I.M.D. in Worswick, G.D.N. and Ady, P.H. (eds) The British economy 1945-50, p.169
- (31) Little, in Worswick and Ady, op. cit., ibid.
- (32) T 171 397 On March 19th 1948.
- (33) Dow, op. cit., p.36
- (34) T 171 397
- (35) Dow, op. cit., p.204: "There was a steady rise in the subsidies in the first post-war years till Sir Stafford Cripps called a halt to this process in 1949"
- (36) See above, p.115
- (37) Statement on personal incomes, costs and prices, Cmd. 7321, 1948.
- (38) T 233 342
- (39) T 233 342
- (40) CAB 134 167
- (41) CAB 134 167
- (42) CAB 134 636
- (43) Dow, op. cit., p.35
- (44) See above, p.217
- (45) T 230 25 Economic Section analysis of economic

controls.

- (46) BT 11 3960
- (47) BT 11 3960
- (48) BT 11 3960
- (49) BT 11 3960
- (50) BT 11 3960
- (51) BT 11 3960
- (52) CAB 134 170
- (53) CAB 134 170 E(P)(48)11
- (54) CAB 134 170
- (55) In other cases broad foreign policy considerations over-rode economic arguments: by a rather squalid ministerial decision, capital goods were withheld from the Indian market, but not from Pakistan. See CAB 134 170 for points on this policy.
- (56) See above, p.218
- (57) CAB 134 638
- (58) CAB 134 0637
Rolfe, S.E. Manpower allocations under British planning 1945-49, American Economic Review, 1954, persuasively argues the point that wages were the main factor.
- (59) CAB 134 167
- (60) CAB 134 168
- (61) CAB 21 2244
- (62) CAB 128 12 Cabinet meeting 5/1/48.
For papers, see CAB 129 23. CP(48)7 summarised the perception of the Soviet threat. In his paper on publicity, CP(48)8, Bevin claimed: "I have shown that the Russians and the Communist Allies are threatening the whole fabric of Western civilisation, and I have drawn attention to the need to mobilise spiritual forces as well as material and political, for its defence".
- (63) See above, p.115
- (64) T 230 61
- (65) T 229 208

- (66) CAB 134 210
- (67) T 229 47
- (68) CAB 124 1139
- (69) T 229 65
- (70) T 229 200 Hitchman: 7/10/48
- (71) T 229 200 8/11/48
- (72) T 229 200 11/11/48
- (73) CAB 124 1139 EPC(48)100, para. 5
- (74) T 229 205
- (75) T 229 205
- (76) T 229 205
- (77) T 229 205
- (78) T 229 65
- (79) T 229 65
- (80) CAB 124 1139
- (81) T 229 205
- (82) T 230 28
- (83) A good account of the development of the Economic Surveys, and the use of economic forecasting in connection with the OEEC exercise, can be found in Devons, E. Papers on planning and economic management, 1970; The British four-year plan? Manchester School, 1948
- (84) CAB 134 171 This proposal was made at the beginning of 1949, at a time when renewed weakness against^{the} dollar was being felt. It possibly reflected both the concern about a new sterling/dollar crisis and official cynicism about the OEEC exercise
- (85) T 230 24
- (86) T 229 207
- (87) T 229 207
- (88) T 229 65
Sked, A. & Cook, C. Post-war Britain, a political history, pp. 76-9
- (89) See above, p.228
- (90) PREM 8 923

- (91) PREM 8 923
- (92) Woods, A. The groundnut affair, 1950, contains a lucid account of this planning disaster.
- (93) PREM 8 923
- (94) PREM 8 923
- (95) Ady, P.H. in Worswick, G.D.N & Ady, P.H. eds., op. cit. p.567.
- (96) CAB 134 438
- (97) CAB 134 438
- (98) CAB 134 438
- (99) CAB 134 438
- (100) CAB 134 438
- (101) CAB 21 2024
- (102) CAB 21 2024
- (103) CAB 21 2024
- (104) T 229 130
- (105) T 229 130
- (106) T 229 17
- (107) T 229 287
- (108) T 229 286
- (109) T 229 286
- (110) T 229 287
- (111) T 229 286
- (112) T 229 286
- (113) See Table 8, p.254
- (114) T 229 286
- (115) CAB 21 2247

THE AFTERMATH OF ECONOMIC PLANNING, 1949-51

Despite remarkable progress towards economic recovery during 1947 and 1948, there was a new balance of payments crisis in 1949. On June 29th 1949, Hall lamented in a brief to Attlee: 'The country is now facing a major crisis and it will ask how this can have come about when production and exports are at record levels, and the fundamentals of prosperity, the productive employment of our resources, apparently never before so well assured'.⁽¹⁾ The immediate cause of the renewed crisis was a recession in the United States economy. Because of this, 'Sterling exports to the United States fell moderately, at a time when imports from the United States had been allowed to increase'.⁽²⁾ There were also several aggravating factors. First, it was the United States authorities' considered view that sterling should be devalued, which fuelled expectations that there would be a devaluation; this speculation then affected the flow of export orders.⁽³⁾ Second, exchange controls were supposed to have been tightened up after the 1947 debacle, but there was still a general problem of leakages. At one meeting of the Dollar Drain committee, which was charged with the responsibility of limiting the outflow of dollars from Britain and the Empire, the exchange controls were said to be 'leaking like a sieve'.⁽⁴⁾

However, the balance of payments weakness was most crucial in the visible trade balance - not just of Britain but of the whole sterling area - and was mainly due to the long-predicted US recession (though there was plenty of political argument about the 'real' reason). Until recovery in 1948 it had appeared that the 'emptiness' of the British economy was the main danger to economic stability; but after the recovery, and success in increasing exports, leading to a trade surplus in 1948, the picture changed. The new situation resembled

the most likely - but most difficult - scenario for a post-transition employment crisis: a recession triggered by a fall in export demand. This possibility had been foreseen during the reconstruction discussions, but the main questions that arose from it had not been answered. There were no firm answers in terms of prevention (how to get other countries, especially the United States, to adopt stabilisation policies), or in terms of cure (how to stimulate internal demand to substitute for an externally induced fall in demand). As the threat of a sharp fall in export demand grew, work was being done on reflationary measures to meet it, such as the stimulation of certain types of internal investment expenditure. It was suggested, for example, that the GPO should spend more on telephone machinery that would otherwise have been exported.⁽⁵⁾ But in general this work confirmed what had long been suspected: that the stimulation of internal expenditure could not offset a fall in external demand in the way that it might if the cause of the fall was internal. Indeed, the work being done on measures to be taken in the event that the US recession turned into a slump was brushed aside as 'hopelessly overtaken' by the reserves crisis, as the government discussed devaluation in June 1949.⁽⁶⁾ Therefore, the 1949 crisis required a fundamental policy choice, rather than a consolidation of consensus, and the government hovered for some time between a number of policies. It has often been argued that devaluation was wrongly delayed, and should have been done as soon as the crisis manifested itself.⁽⁷⁾ But the policy choices raised the political temperature inside the government, which inevitably involved delay; meanwhile, the aggravating factors were at work, even though the US recession did not deepen into a slump.

The discussions leading up to the 30% devaluation, announced on September 18th 1949, marked a complete change of approach to balance of payments policy. True, devaluation had been often advocated as a first resort in

a balance of payments crisis by economic advisers; some of them had even pushed the idea of floating exchange rates, generally regarded as outlandish at the time. But most ministers had regarded devaluation as only slightly less politically disastrous than orthodox deflation. This was certainly the attitude at the end of 1947, as the government waited for Marshall Aid and pondered the alternatives. At that time, an intensification of economic controls was considered preferable to devaluation.⁽⁸⁾ In 1949 this order of preference was in effect reversed, but only after a difficult internal debate. The ministers responsible for dealing with the crisis were the 'Treasury 4': Attlee, Cripps, Gaitskell (by this time Minister of Economic Affairs), and Jay (Economic Secretary).⁽⁹⁾

The early discussion⁽¹⁰⁾ resembled that which preceded the convertibility crisis of 1947, concentrating on cuts in the dollar import programme, tightening up of exchange controls and hopes for improved productivity.⁽¹¹⁾ But it soon became clear that fundamental decisions would be required. Many of those concerned supported devaluation, with economic advisers in the forefront. Hall recommended devaluation from the start, in line with Economic Section thinking over a long period.⁽¹²⁾ Others proposed either an intensification of the policies that had been agreed in the wake of the 1947 convertibility crisis, or a stringent dose of deflation. There were, then, three different approaches; although they were not mutually exclusive. The discussion was particularly complicated because Cripps disagreed with devaluation, and opposed deflationary action, wanting to intensify the policies that had apparently worked so well after the previous crisis.⁽¹³⁾ He took part in the initial discussions, but fell ill on 19th July and went to a clinic in Zurich. Two days later, a few officials were informed of a ministerial decision in favour of devaluation.⁽¹⁴⁾ The officials then recommended that

devaluation should be delayed at least until Cripps returned from Switzerland. On August 3rd 1949, Attlee wrote to Cripps in Zurich concerning the date of devaluation. The letter was taken to Cripps by Harold Wilson. After he returned from convalescence, Cripps was still unconvinced about the merits of devaluation, which he had publicly opposed, though he accepted the decision without resigning.(15)

I

What had swung the argument so decisively against Cripps? The internal discussion about devaluation got underway in June 1949. Plowden, Rowan and Hall recommended immediate devaluation plus deflationary measures. Bridges's view was that the situation could not be relieved by an intensification of the previous policies.(16) The collective view of the official advisers, (Bridges, the Treasury 2nd secretaries, Plowden and Hall), expressed on June 18th, concluded: "The only politically tolerable way of adjusting costs is to devalue the currency".(17) Only Cobbold, the Governor of the Bank of England, would have preferred to rely on deflation alone.(18) In a paper circulated by the Treasury on June 23rd, the Bank made plain its opposition to devaluation, arguing that the conditions for the success of such a policy were not right: most non-dollar countries would follow suit; the problem of large sterling balances would remain; a larger aggregate dollar income after devaluation was by no means certain; dollar imports were already strictly controlled. In short, 'devaluation should not be undertaken unless the new rate has ... every human prospect of being successfully maintained', and the Bank thought that the prospects were not good. Therefore, 'unpleasant courses' were proposed: a reduction in both sides of the Budget; a revision of the investment programme; some tightening of monetary policy. The purpose 'would not be simply to

force through what is sometimes called an "old-fashioned deflation" ... but to create the conditions for a return of confidence in sterling and a new approach to the Americans'.(19)

Deflation by itself was strongly opposed by all the ministers. One can get a flavour of the foreboding that was felt from some political 'Thoughts on the Economic Situation' written in July 1949 by Hilary Marquand, who raised the spectre that deflation would 'encourage the Communist Party if it did not split the Labour Party'. On these grounds he supported devaluation rather than deflation.(20) Of course, deflation was very strongly abhorred in the Labour Party because of the catastrophe of 1931. So, the argument among ministers was about devaluation vs. intensification of the 1947 measures. But a complication was that most of the officials wanted deflationary measures to accompany devaluation, and this led to a further argument, which continued after the decision to devalue had been taken (for example, on August 3rd 1949, Cobbold was recommending prior action to reduce government expenditure and sterling balances).(21)

Within the 'Treasury 4' Cripps and Jay wanted to intensify the previous policies. In a paper dated July 7th 1949, Jay argued that the crisis was not mainly a crisis of UK prices and costs; rather, he thought that the problem organisational. Accordingly, what was needed was a switch of exports from non-dollar to dollar markets: "If there is a solution, it will come from a more planned and collective selling effort, backed by both incentives and controls designed to steer exports in the right direction...".(22) (In Jay's view, put forward in March 1949, the process of decontrol had gone too far, and was jeopardising efforts to steer exports.) Jay was accused of advocating 'Schachtian' measures,(23) but he replied that the argument about multilateralism vs. autarky was over-simplified; it was patently obvious that the world economy was already divided. He also

pointed out that if the US recession became a slump there could be no solution by simply lowering prices and costs, and suggested that there might be competitive devaluations such as had occurred during the 1929-32 crisis.(24)

Hall characterised the arguments against devaluation as moral rather than economic, and argued both against more deflation and against an intensification of the 1947 policies. He raised a telling practical point against the latter: under the current policy, departments had been 'notoriously reluctant to compel manufacturers to export to dollar markets'. (In the last chapter it was shown that this was, indeed, the case.) Also, deflation had already been pushed 'as far as we dare'. Increased productivity as a way out of the crisis might be possible in the long term (it was rising at about twice the pre-war rate), but the problems were immediate. Besides, Hall argued, any unemployment resulting from deflation might jeopardise Trade Union co-operation in getting rid of restrictive practices and helping in other ways to increase productivity.

Some of those who had supported the previous balance of payments policy were by now wondering whether it was time for a change.(25) After all, conditions had changed; export diversion was most practicable in a sellers' market, but this was just about over in many cases. For example, many engineering goods were said to be in easy supply by mid-1949,(26) whereas in 1947 it had been possible to assume that as many could be sold as could be produced, and supply was the limiting factor. Therefore, a policy aimed at decreasing the price of exports seemed most feasible. At the same time, if increased demand for exports should result, the extent of the recovery ensured that supplies would be available, and would not run into the problems of bottlenecks. Thus, it could be maintained that even if the previous policies had been successful, conditions had changed in a

way that made it inappropriate to continue them. But questions were also raised about whether the previous policies had in fact been successful, or whether it was their failure that had led to the current crisis. In a paper dated July 20th 1949, Oliver Franks argued that the crisis was not just a matter of recession in the United States, but was also a measure of the failure to close the dollar gap and curtail government expenditure. Like Hall, he emphasised how little effort had been put into diverting exports to the United States - criticising what he thought was a failure to allocate more steel to car manufacturers, who had good prospects for exporting to the United States.⁽²⁷⁾ This argument was influential for several reasons: Franks had publicly advocated the necessity of economic planning in 1947, had taken a leading role in the OEEC planning exercise, and was currently Ambassador to the United States.⁽²⁸⁾

There was another influential objection to intensification of the previous policies: they would lead away from the 'one world' of multilateral trading. In a brief to Attlee entitled 'EPC and dollar situation', dated July 5th 1949, Hall argued for devaluation on the grounds that the choice lay between "one world or two worlds", multilateralism or imperial preferences. The argument for devaluation therefore turned partly on sustaining the aim of multilateralism, which remained strong despite the partial retreat after the 1947 convertibility crisis. Hall argued that matters had now come to a point where there would be long-term consequences from different methods of solving the balance of payments problem. Another dose of the 1947 policies would result in a long-term movement away from the ideal of multilateralism.⁽²⁹⁾ Gaitskell noted, similarly, that 'we are at the parting of the ways'.⁽³⁰⁾

Thus there were powerful arguments to support the view that there was little hope of Britain exporting its way out of the new crisis by intensifying the 1947 policies:

either conditions had changed; or, in crucial respects, the previous policies had not been implemented. In these circumstances, refusal to accept devaluation would have left the options of a further round of 'austerity' along the lines of wartime stabilisation policy, or an orthodox deflation that might result in the return of mass unemployment. The forces marshalled against the idea of continuing with the previous policies, with which Cripps and Jay had identified themselves, were formidable. Jay became isolated when Cripps' illness transformed the 'Treasury 4' into 3, with Gaitskell a powerful supporter of devaluation alongside most of the officials.

II

After the decision to devalue there was still the question of other measures. From the start, the officials advocating devaluation also wanted more internal disinflationary measures, as a means of restoring external and internal 'confidence', and the ministers were divided about this. In a letter to Cripps dated July 6th, Bridges urged an increase in interest rates, a reduction of projected government expenditure (not necessarily an absolute decrease), and no increase in taxes.⁽³¹⁾ But Cripps resisted any further deflationary action; probably he saw this as the re-emergence of pre-war ideas in conditions of incipient slump, in which the exact opposite of deflationary action would be needed.⁽³²⁾ Cripps's opposition put the senior officials in a difficult position. Bridges mentioned the 'delicacy' with which it was necessary to put forward to the Prime Minister measures which Cripps did not wish to advocate to his colleagues. This problem was presumably eased by Cripps's departure from the scene.⁽³³⁾ But Bernard Gilbert was quite forthright in telling Morrison that the government's social policies would have to change if government expenditure was really to be

decreased.(34)

On 28th July Attlee was informed, in an official brief, that there might be argument in the Cabinet on the same day about the need for internal economic adjustments at the same time as devaluation. He was advised that devaluation needed disinflationary measures to back it up.(35) The issue of external confidence was particularly important, because there was to be a new round of talks with the United States and Canada, and what was at stake was an interpretation of the cause of the crisis: was it purely an external shock hitting an otherwise healthy economy, or was the crisis wholly or partly due to previous policies that needed correction? There was still a strongly held view that Britain's economic predicament was due to 'trying to do too much'.(36) In the Cabinet Morrison supported the view that the level of public expenditure was 'disturbingly high'; against this it was argued that the crisis was not due to public expenditure, but to a fall in exports; cuts in public expenditure would threaten important projects and would not have much effect on costs. Furthermore, in talks with the US government policies should not be jeopardised by any concession to the view that problems were due to the level of public expenditure.(37) As a compromise, on August 4th Attlee put out a request to all departmental ministers to cut out 'inessential' expenditure, aiming to cut the rate of total supply expenditure by 5%.(38)

This measure, which resulted in little more than the euthanasia of senile quangos, did not stop the pressure from officials for a more thorough revision of policy. In a paper on government expenditure and the balance of payments, dated August 15th, Hall argued that a reduction of government expenditure would lead to an increase in the budget surplus; this would allow a reduction in taxation, and people would probably save more out of their increased incomes; then a smaller budget surplus

would be possible. "Not necessarily," Attlee commented, "if consumer demand is still unsatisfied as indicated above [in Hall's paper]. This is the very old argument that one can only get savings by letting some people have incomes greater than they can spend". Having pointed out the internal contradiction in Hall's argument, not to mention its implicit political bias, Attlee added: "I don't think much of this paper".⁽³⁹⁾ Economic advisers did not have things all their own way!

Even those ministers and officials most strongly committed to devaluation fell out with each other over the question of internal measures to accompany devaluation. Ministers felt that in the preceding couple of years they had got the economy on roughly the right lines, and that it was mainly external circumstances that had led to the crisis. Officials were sceptical, partly because they were critical of the government's domestic policies, partly because they knew that opinion in the United States was similarly critical. For example, Lionel Robbins brought news from the 'US Corridors' that the United States was in no mood to help Britain again, and that it was not accepted in Washington that Britain's problems were due to recession in the United States: the recession had halted, and the Americans were pleased with themselves.⁽⁴⁰⁾ The issue came to a head over the drafting of a brief for ministers about the forthcoming negotiations with the US and Canada. The initial draft written by officials set out the view that the overseas ministers would blame the British government's domestic policies for the crisis, and that they would sit back and let Britain make proposals on how it would extricate itself from the problems. To restore their confidence, in addition to successful devaluation, absolute reductions in government expenditure and monetary action would be required. Ministers had already turned these latter ideas down, but the officials were still determined to revive them, 'in a less direct form'.⁽⁴¹⁾ Gaitskell's angry

characterisation of the draft brief was that 'the first part ... might have been written by someone who was completely schooled in the anti-British American press'.⁽⁴²⁾ Jay and Gaitskell produced their own version, putting a very different view, stating that the main reasons for the situation were to do with various external factors and policies, and US public campaigns against the UK. On August 17th 1949, Bridges wrote a letter to H. Wilson-Smith which contains evidence of dissension between himself and the ministers of the 'Policy group' which included Jay and Gaitskell: 'In order to keep the "Policy Group" in play we had to let Gaitskell and Jay have a go on this paper yesterday. We had another very troublesome time with them and as a result have had to recast the first two sections of the Memorandum in a more bedside manner still. Generally, I still doubt whether our masters quite realise how difficult a negotiation they are faced with, although there is some indication, I think, that EB [Bevin] is beginning to wake up to the situation'. Bridges felt that both Gaitskell and Jay were 'obviously frightfully sensitive about anything which implies that there can be any justification whatsoever for any loss of confidence in this country by the USA and Canada'.⁽⁴³⁾ The final draft of this brief, which incorporated many of Jay's and Gaitskell's points, was circulated to the Cabinet on August 23rd 1949.⁽⁴⁴⁾

One is left in little doubt that the officials and ministers were arguing from very different starting points about the responsibility of the government and its programmes for the renewed economic crisis. Officials were inclined to take a much more conciliatory tone with the United States in the negotiations because they fundamentally agreed with many of the criticisms that were being made in the United States and Canada, and because - more readily than the Labour ministers - they recognised the economic power of those countries and were

willing to accept the consequences. Indeed, many kinds of domestic critics of the government's policies clearly had a vital interest in maintaining the kind of external discipline over economic policy which resulted from Britain's relationship with the United States. And in the event, despite all the resistance that the ministers put up internally to a policy of public expenditure retrenchment, and despite their insistence that discussion on internal policies should be kept out of the talks, it was necessary for Cripps, when he went to Washington in September, to make a statement that the government had decided 'to reinforce our existing disinflationary policies by a concerted attempt to bring down government expenditure ... We are determined to do whatever is necessary, as we have done over the last two years, to avoid any increase in inflationary pressure'. According to Franks, this statement was very well received, and the 'previous crisis of confidence was resolved'.⁽⁴⁵⁾

This commitment was later to lead to deep divisions in the government, when the attempt to control total government expenditure took place in the context of pressures to reduce expenditure on the National Health Service while increasing expenditure on military preparations. Meanwhile, devaluation involved several other difficulties: deciding the scale of the change, and judging the effects. The ultimate outcome depended to a large extent on the reactions of other governments in the Sterling Area and elsewhere, and also of domestic effects on prices and wages. The Economic Section was responsible for advising on the 'right' devaluation, which was one of the most difficult economic forecasting exercises carried out since the war. The Economic Section would have preferred a floating exchange rate, rather than a change to another fixed rate; but it was recommended that, either way, the initial devaluation should be large.⁽⁴⁶⁾ Meanwhile, a working party was set up to look into the impact of devaluation on price

structure. This took into account three main aspects: changes in export prices; changes in costs (especially of dollar imports); and the possible effects of other countries' devaluations.⁽⁴⁷⁾

The price structure after devaluation was difficult to estimate, but it was important to attempt to forecast it in order to decide on other policy measures.⁽⁴⁸⁾ At a meeting on the Economic Situation on September 14th 1949, chaired by Attlee, official reports on measures to postpone rises in prices, wages and profits were considered. Officials' analysis of the problem was straightforward: the risk of further devaluations could only be avoided if domestic costs were kept under control. Wages being the largest element of manufacturing costs, and devaluation bringing some increase in the cost of living, there was a danger of a cycle of wage increases nullifying the original purpose of devaluation. Moreover, because wages were such a large part of national income as a whole, there would be a danger that wage increases could offset the 'effects of the 5 per cent cut in government expenditure which is contemplated as a means of reducing inflation', as well as increasing the costs of government directly, in the case of public employees; more severe cuts would then be necessary. Finally, if devaluation resulted in price rises at home firms might be tempted to divert output to the home market, away from 'difficult hard currency markets'. The obvious conclusion to be drawn from this was that both price controls and wage restraint should be continued.⁽⁴⁹⁾ Ministers therefore decided that departments were to be asked to enforce price controls 'rigorously'. In general, prices were to be held down at the expense of profits. The future of food prices was uncertain, which had implications for the continuing policy of stabilising the retail price index by subsidies.⁽⁵⁰⁾ The possibility of strong upward pressure on wages raised the question of how far this could be

Table 11.

Indices of retail prices - 1938, 1943-7; 1947-51

A. Working class cost of living index, 1938, 1943-1947

(1 Sept. 1939=100)

	<u>1938</u>	<u>1943</u>	<u>1944</u>	<u>1945</u>	<u>1946</u>	<u>1947^a</u>
All items..	101	128	130	131	131	131
Food.....	102	120	122	123	122	117

^a June 1947. After this, the basis of ^{the} official price index was changed.

B. Interim index of retail prices, 1948-1951

(17 June 1947=100)

	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>
All items..	108	111	114	125
Food.....	108.2	114.1	122.7	136.3

Source: Mitchell, B.R. & Jones, H.G. Second abstract of British historical statistics, 1971, p.191

held back by the existing voluntary wages policy. On September 13th Cripps asked that consideration should be given to a short statutory prices and incomes freeze, which he proposed to announce in a radio broadcast; but this was opposed by the Treasury on the grounds that though it could have a good psychological effect, it would be difficult to enforce; furthermore, it was recognised that there could be an explosive rise in wages and prices at the end of the statutory period. A meeting of ministers therefore turned down Cripps's proposal.⁽⁵¹⁾ In the event it was felt that the trade unions continued to take a responsible approach to wage rises after devaluation. The wages situation was much better than had been expected. The voluntary restraint that had been agreed in early 1948 lasted until 1950, when the breakdown was probably largely due to delayed pressures

resulting from devaluation and changes in food subsidy policy dating from the previous year.(52) But legal limitations on wages continued to be opposed as being 'contrary to the English genius'.(53)

Table 12. United Kingdom indices of average weekly wage rates of all workers - 1938, 1943-47; 1947-1951

A. 1 September 1939=100

<u>1938</u>	<u>1943</u>	<u>1944</u>	<u>1945</u>	<u>1946</u>	<u>1947^(a)</u>
99	136	143	149	162	168

(a) Jan-Nov 1947

B. 30 June 1947=100

<u>1947^(b)</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>
101	106	109	111	120

(b) June-Dec 1947

Source: Mitchell, B.R. & Jones, H.G. Second abstract of British historical statistics, 1971, p.144

How did the government follow up the 30% devaluation, and how did it assess the general outcome? The Export committee's official sub-committee on plans made a report to the Chancellor of the Exchequer about the situation immediately after devaluation, concerned with export incentives, prices, future exports to the dollar area and export capacity. The main point made was the need for the government to give a lead to exporters to give priority to orders from dollar markets.(54) A general observation was that there were few cases where it had been possible to hold the former dollar price without loss of goodwill. Whisky was one of the rare examples of a commodity which did hold its dollar price, but engineering goods did not.(55) This suggests that export prices had been too high before devaluation, and that the devaluation was not too great (as was frequently argued

at the time, and since). A corollary was that the rise in import costs was higher than hoped (this being a factor which fed into wage demands and led to the breakdown of the voluntary incomes policy in 1950). Apart from these drawbacks, the overall assessment was that devaluation had been a success.(56)

Harold Wilson visited the US soon after devaluation, and was able to make some pertinent observations to his colleagues. He saw the key problem as delivery times, and thought that British exporters neglected the possibilities of regional markets within the United States. Exporters, he felt, had become 'soft' because of the sellers' market after the war; though everyone must have known that this would come to an end sooner or later. This view was shared by officials such as Neville Blond, who had put forward these conclusions some time previously, during the government's campaign to increase exports to the United States and Canada early in 1949(57) Wilson favoured measures to divert exports to dollar markets. He thought that the scale of diversion needed was quite small, but important. According to Wilson, many controls were in fact still being used - to a greater extent than was realised.(58) Thus, there was still some support and some action on the policies of 1947, even after devaluation. But this should not be exaggerated. Gaitskell wrote a memo on economic planning in 1950, which Hall said made "rather stronger claims for our willingness to use controls to direct exports than the facts warrant". He gave the example of fine china, which was a certain dollar earner, but there was still no firm delivery dates for exports 4 years after the end of the war. This contrasted with the development of military production during the war, and placed a question mark over the seriousness of the government's dollar export policy. Hall felt that if the government was serious, then a measure of guidance and discrimination was necessary.(59).

Despite such criticisms, the government was quite pleased with the outcome of devaluation. On December 14th 1949 there was an Economic report suggesting that the improvements of the past eighteen months or so were continuing; and the results of devaluation were stated to be, if anything, better than expected. Also, productivity appeared to be rising at about twice the pre-war rate.⁽⁶⁰⁾ There were indications that better productivity was chiefly due to changes in the supply position; the example was given of sheet steel and vehicles. The textile labour force was growing. The dollar position was still precarious, partly because the devaluation had affected the whole sterling area and the position was still unclear. But overall optimism in economic reports continued. (There was one bad spot: unemployment was at 6.7% in Northern Ireland as against 1.8% in Britain as a whole - full employment as enjoyed in the rest of Britain never did apply to Northern Ireland).⁽⁶¹⁾

III

In the development of post-war economic policy the decision in 1949 to devalue was a milestone. First, it confirmed the government's commitment to the 'one world' of multilateral trading, and eventual sterling/dollar convertibility. (It should perhaps be mentioned that 'one world' meant one sterling/dollar world. The more fundamental cold war political and economic concept of 'two worlds' - communist 'East' and capitalist 'West' - was solidifying at the same time. Indeed, the movement towards 'one world' in the first sense was intimately connected with the creation of 'two worlds' in the second sense). In external economic policy devaluation therefore marked the end of the movement towards partial autarky initiated after the convertibility crisis, and the virtual end of the idea of using economic controls for

discrimination in export policy. This was the end of a set of economic planning ideas which, admittedly, had been only partially developed and partially successful. Second, devaluation and the discussions stemming from it confirmed the ascendancy of a counter-inflationary economic strategy different from the disinflationary policy which preceded devaluation. Up to 1947 the government had concentrated on preparing to combat recession with reflation. In 1947 the empty economy and the dollar shortage had reinforced the importance of economic controls in an acutely inflationary situation, but this proved to be a short-term extension of the transitional period rather than a long-term development. Recovery in 1948 facilitated a policy of financial disinflation combined with decontrol.

When the early signs of recession came, in the export-led form that had long been predicted, it turned out that the most feasible alternative to orthodox deflation, namely devaluation, had to be accompanied by counter-inflationary rather than reflationary policy. Instead of trying to offset the possibility of unemployment in export industries by expanding some other part of the economy, the government found itself maintaining employment by lowering the price of exports, while trying to offset the inflationary effects of higher import prices by holding down wages and restraining government expenditure. This was a short step from the disinflationary financial policy of the period 1947-9, the main objectives of which had been to achieve budgetary surpluses and to keep prices and wages steady. But the new pressures from devaluation required further development of these policies, and economic policy discussions now became as dominated by the problems of counter-inflationary measures as they had once been by the problems of anti-slump measures. There was consideration of what constituted an adequate measure of the existing state of inflationary pressure; of how much

disinflation was necessary; of the right mix of financial instruments; of how to judge the outcome of counter-inflation measures.

The need to accurately assess the effect of financial policy on inflationary pressure led to fresh study of the ways of doing this. The Economic Section's 1949 circulars show how financial 'disinflation' policies moved policy-makers towards the notion of using the unemployment statistics as an indicator of progress in disinflation.⁽⁶²⁾ This technique began to replace the previous techniques for assessing inflationary pressure, which had eclectically examined various markets, trying to identify examples of goods in easy supply in order to to assess the possibilities for decontrol. Now there began to be discussions about what the level of unemployment should be at 'full employment'.⁽⁶³⁾ In particular, the suggestion that the aim of fiscal policy could and should be the fine-tuning of unemployment was highly significant.⁽⁶⁴⁾ The changeover from the 'signs of deflation', to the single indicator of the rate of unemployment can be taken as a sign of changing conditions as well as changing intentions. Though decontrol was incomplete, the summing up of an inflationary or deflationary gap in the single indicator of unemployment required the existence of broadly free market conditions to reflect reality. Just as 'inflationary pressure' could not be measured in terms of the rate of price rises in a period of price controls and administrative allocations, so the effects of disinflation could not be judged by the single indicator of unemployment until market forces dominated the operation of the economy. There was an atmosphere of thinking the unthinkable in the Economic Section's discussion of this idea. The reason for this is not hard to grasp: in the existing circumstances of 'over-full' employment, as some called it, the fine-tuning of employment required a deliberate decision to increase

Table 13.

Unemployment in the United Kingdom, 1938, 1945-51

(Percentage of working population)

<u>1938</u>	<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>
9.3	0.5	1.9	1.4	1.3	1.2	1.3	1.1

Source: Feinstein, C.H. National income, expenditure and output of the United Kingdom 1855-1965, 1972, Table 57.

unemployment. Obviously this was not easy to justify to most of the public and to some ministers, who were still attuned to the idea of recession. The advisability of announcing such an aim was, understandably, discussed with some trepidation in the Economic Section.(65)

Another crucial change that was taking place in this period was that the Budget was emerging as the main instrument of economic planning.(66) Because of the need for surpluses this, again, was not completely accepted or very well understood, even inside the government. In March 1950 Hall wrote a brief on budget policy for Attlee, about a Cabinet paper (67) which had been prepared on the instructions of the Chancellor,(68) 'because of doubts felt by the Lord Privy Seal about the wisdom of our policy of having large budget surpluses'.(69) Hall advised Attlee: "The subject is intensely difficult to understand [and] it is rather doubtful whether in the end there will not have to be an act of faith". He thought that the 1947 and 1948 changes in budget policy amounted to a 'revolution', because the government "took responsibility for maintaining full employment, but avoiding inflation. It is the best argument in favour of this policy that the revolution passed almost unnoticed". Hall admitted that some saw a danger in pushing deflation too far, but the real danger was having too much inflation, especially after devaluation, thereby producing a new balance of payments

crisis. Accordingly, the 'plain duty' of the government was to support the present policy: "Any departure from it would be rightly regarded as an abandonment of the principles of planning, and would ... do great harm to the cause, both here and abroad". By this time, then, the notion of planning had been slimmed down to Keynesian dimensions in some minds.

The key question arising from counter-inflationary policy with the Budget as the central instrument was how to achieve the necessary budget surpluses, and this brought back to the centre of economic policy-making the issues of taxation and the control of government expenditure. Monetary policy was not completely excluded from consideration although it never achieved much prominence under the Labour governments. While there had been some retreat from the initial very low rates of interest achieved under Dalton, it was still the government's policy to keep them as low as possible. Nevertheless, in the 1949 budget policy discussion there were indications that some ministers were moving in the direction of giving more weight to monetary policy; Douglas Jay saw it as a means of staving off pressure on the government's social objectives through constraints on government expenditure; he suggested that too much had been made to rest on budgetary disinflation, and argued for credit disinflation and a milder dose of budgetary disinflation.⁽⁷⁰⁾ But Jay's idea of a monetary disinflation to back up the budget was rejected - because it might reduce the volume of investment, raise interest rates and possibly create unemployment. All in all it was considered 'psychologically unsound'.⁽⁷¹⁾ As mentioned above, the tightening of monetary policy was also rejected later on the year, in the discussions preceding devaluation, when it was proposed by the Bank as part of its alternative, and by other advisers as an accompaniment, to devaluation.

Therefore the main debate revolved around fiscal

policy, now being pushed forward by economic advisers as the central instrument of economic planning. The level of taxation was already generally regarded as too high, and as a disincentive to workers and capitalists alike, so pressure came on government expenditure, and social policy in particular, which was the fastest growing component of public expenditure. What worried the conservative-minded was that the welfare state might result in uncontrolled rises in expenditure. For example, the central concept of the National Health Service appeared to place the control of the public purse in the hands of thousands of doctors.⁽⁷²⁾ Such fears were not reduced by events in the early years of the NHS, when Parliament had to be approached several times to endorse supplementary expenditure. Thus, in the general budget policy discussions for 1949, Bernard Gilbert commented on the 'truly alarming' increases of estimated expenditure on the NHS.⁽⁷³⁾ To those who worried that any retrenchment might look like the 'Geddes Axe' of 1919-20 all over again, Gilbert attempted the reassurance was that it was a question of controlling the rate of increase of spending, rather than reducing services.⁽⁷⁴⁾ A battle within the government over when and how to call a halt to rising expenditure on social services in general, and the NHS in particular, was therefore inevitable, particularly after devaluation.

But what made the political situation after devaluation so explosive was that within the general effort to reduce government expenditure there arose the apparent necessity to accommodate a higher level of defence spending, and it was this combination of circumstances that eventually split the government in early 1951. From the end of the war a consistent aim of the government had been to reduce military spending. There was nothing remarkable about this: releasing resources from the military sector was one of the surest ways of increasing other supplies of all kinds, relieving

inflationary pressure and helping the balance of payments - and the armed forces throughout remained larger than they had been before the war. Nevertheless, the armed forces were operating on what to them appeared to be very restrictive assumptions, especially given the increasing bluster of the Cold War. In 1948 military spending reached a low point but in 1949 and 1950 the whole process was put into reverse. Cripps, while he was still Chancellor, advocated cutting defence as well as other parts of government expenditure. Thus, in 1949 Cripps wanted to continue to cut defence expenditure at a time when others were proposing increases in both expenditure and commitments; in this and other respects he stood out against the Cold War policy. The defence programme adopted in 1948 had called for about £840 million to be spent in 1950-1. New estimates in 1949 put this at about £810 million. Current defence spending was running at about £790 million. Cripps wanted this to be cut to about £760 million and further reductions to be made thereafter. He actually called for a study of a £700 million defence programme, but this was rejected as 'inconsonant' with foreign policy. Bevin, for example, argued that the Cold War would 'intensify' if defence spending fell further.(75)

Subsequently Cripps's viewpoint was completely overturned. In this the crucial event was the Korean war, which broke out in June 1950, making a massive impact on public opinion, on the economy and on economic policy. A full treatment of rearmament is outside the scope of this study, but it is useful to indicate why this became so intertwined with that of NHS expenditure, and to give some insight into official and ministerial views at this time. For in the background of these dramatic events the last phase of the internal debate about the future of economic controls and their connection with economic planning was underway, and the outcome of this was closely related to the foreground of political conflict

on the international plane and within the government.

A key brief to Attlee from Bridges, dated July 22nd 1950, displays the conflicts that arose as the attempt was made to reconcile pressures to raise the level of preparedness for war with pressures to contain overall government expenditure.⁽⁷⁶⁾ The defence departments had produced proposals for increased military preparedness, but Bridges felt that ministers would 'probably find themselves in a dilemma'. They would want to make a definite statement, in light of the fact that comparisons would be made with the scale of rearmament that the Americans were preparing. Bridges pointed out, however, that the proposals were vague on two key points: (a) the size and shape of the forces needed; (b) the date for which preparedness was being planned. Shinwell, the Secretary of State for War, had not shown that his plans fitted in with any scheme for 'collective North Atlantic defence', except in rhetorical terms; and he had claimed that a time factor was difficult to arrive at. Bridges proposed that the government should sanction an immediate £30m defence 'shopping list', but argued that the more far-reaching acceleration proposals needed 'far more study before they should be approved'. However, Bridges also imagined that 'Ministers would feel that they cannot get away with this, bearing in mind, not only the political situation here, but the need to retain the goodwill of the Western European countries and of the United States'. Therefore, he recommended that a public announcement should be made that there would be a rise of £100m in defence expenditure in the coming year, bringing it to £880m, while departments should be given no authority to go beyond the shopping list. Bridges added two further reasons for adopting this tactic. First, the government would be able to escape from any early announcement about service pay (on which there was a dispute with the Ministry of Defence). Second, and ultimately far more significant for the Labour

government: 'unless a pretty specific announcement is made about the increase in defence expenditure next year, it is impossible to make a sufficiently clear and emphatic warning about the need to cut down on other things'.(77)

There can be little doubt that among the most important of these 'other things' was increasing expenditure on the NHS, over which Bevan was to have his historic resignation battle with Gaitskell. That battle was as much about the scale of proposed rearmament as it was about the NHS, and one of the points made by Bevan in the course of the dispute rings very true in the light of Bridges's proposals of July 1950: Bevan argued that the publicly announced 14% increase in defence expenditure in one year was unrealistic because physical resources could not be mobilised to this extent - at least not without recreating the bottleneck economy - and he was undoubtedly proved right in this. The effort of rearmament, not just of Britain but of the United States and other countries, caused a new bout of inflationary pressure. Economic reports to ministers during 1950 showed signs of physical bottlenecks reappearing in coal, bricks, timber, cement; import prices were rising; by December 1950 the outlook for raw materials was said to be 'grim'. The whole economic position, which had appeared so promising at the beginning of 1950, deteriorated drastically from the middle of 1950. With the economy becoming internally overheated, and balance of payments difficulties just round the corner, the partial reversion to a war economy threatened to roll back the economic recovery. On July 30th 1951, E.M. Nicholson briefed Morrison that the economic situation was developing in an 'intricate and confusing way, and it is by no means clear whether the repercussions will prove manageable or whether they will lead to some serious economic crisis'. Rearmament had led to a 'labour famine unparalleled here in times of peace'. The basic cause of

the increased strain and uncertainty was that the economy was being exposed to 'intense pressure and dislocation from the Western rearmament programme, the pace and scale of which are undeniably greater than the international economy can stand without severe dislocation'.⁽⁷⁸⁾ The acceleration of war preparations that had taken place by late 1950 can be judged from the fact that the previous British assumption had been no war before 1957: the new NATO assumption was 1954; the United States itself was working towards preparedness for war in 1951/2.⁽⁷⁹⁾

A further indication of British military preparations was the formation of a new Economic Steering Committee in 1950, with a membership of permanent secretaries and other top officials. Reporting to the Economic Policy Committee, it replaced the official committee on Economic Development that had been formed in 1945. It was to 'advise ministers on economic implications of defence policy and on the means for meeting defence requirements'.⁽⁸⁰⁾ Thus, a committee that had been designed to oversee economic planning in general was replaced by one designed to oversee the economic aspects of military planning. Although there is too much space to analyse this aspect in detail, it can be mentioned that the records of economic policy-making for 1949-51 show many indications of the partial reversion to a war economy, brought about by the 'pace and scale' of rearmament.

In essence the rearmament programme as formulated in 1950-1 involved a reversal of the view that had been constantly put forward since the end of the war, that various government programmes should be reduced in the name of economic realism and the relief of inflationary pressure. In addition, at the time of devaluation, it had finally been accepted that government expenditure should be more closely controlled as a step towards creating overseas confidence. At the time of the Korean war many of the same people, at home and overseas, who

had previously been so critical about the effects of 'trying to do too much' on inflationary pressure and the balance of payments went into reverse for the cause of rearmament. Bevan raised this issue when possible compromises on NHS charges were being discussed in the Cabinet during April 1951. The close connection made between the two issues is especially apparent from the record of the Cabinet of April 9th, when it was suggested that it might be possible to postpone the introduction of NHS charges for 6 months, and 'during the interval Ministers should be able to resolve their doubts on the question whether the money allocated to the increased defence programme could in fact be profitably spent; and they would then be able to see more clearly whether the proposed economies on the Health Service were in fact essential'. Bevan argued that the defence programme was distorting the national economy at the expense of the social services; but Gaitskell was adamant, and at the conclusion Bevin read out a previous decision that a £400m ceiling should be set to NHS expenditure. This reaffirmation made Bevan's resignation inevitable, though he delayed it until after the Budget.⁽⁸¹⁾ Of course, under the Conservatives, once the Korean War scare had subsided, and presumably after 'far more study' had finally shown it to be impractical, the rearmament programme was trimmed to more realistic proportions; but the developments outlined here help to explain some of the bitterness which led to resignations from the second of Attlee's government's following the 1951 Budget.

IV

These dramatic events of 1949-51 overshadowed the discussions that were continuing on what had become the more mundane political questions of the day: the long-term future of the economic objectives and organisation of government; the control of investment; the future of

economic controls; and the relationship of all these to the policy of economic planning. The development of these discussions stemmed from the work of the official Government Organisation Committee set up in the autumn of 1947.⁽⁸²⁾ Subsequently, a steering committee on Economic Organisation was set up, comprising a number of permanent secretaries, chaired by Bridges.⁽⁸³⁾ An Economic Organisation Working Group was also formed, the records of which show that it ranged over the entirety of the government's economic effort.⁽⁸⁴⁾ As far as economic planning was concerned, the discussions came to a head in 1950-1, around the question of whether economic controls should be made permanent in some form.

An important point about the economic organisation enquiry is that through it the officials sought to define economic objectives that would be acceptable to all parties in the future.⁽⁸⁵⁾ The tone was set by CEPS, with a rather banal account of the 'Essential functions of government in the economic field' - which simply reiterated the basic elements of Employment policy.⁽⁸⁶⁾ Not surprisingly, the question of influencing investment was regarded as a very important one to be studied, for which purpose a Control of Investment Committee was set up.⁽⁸⁷⁾ The possibility that economic controls might be needed in the long-term could not be excluded, and a Committee on Economic Controls chaired by Gilbert looked into the implications of this; its work being closely related to that of an Emergency Legislation Committee, which had the onerous job of going through all the wartime emergency legislation (which covered an enormous field, much of it unrelated to economic policy) to recommend which parts of it should be retained and why.⁽⁸⁸⁾ Thus, a set of official committees developed, concerned with the strategic development of economic policy, which explicitly set out to establish a supra-party view of economic policy; there was no attempt to include any notion of economic planning in the

discussions, presumably because it was regarded as a policy peculiar to the Labour Party.

The official Committee on the Control of Investment (CCI) was set up, in early 1949, at the instance of the Production Committee, under a Treasury chairman, P.D.Proctor. Its brief was 'to make a comprehensive review of the powers and administrative machinery required in the long-term for the control of capital investment'.⁽⁸⁹⁾ The CCI interpreted these terms of reference as meaning that it had to show how to influence investment when the controls over building and steel were becoming weaker. The committee predicted the eventual end of building controls and pointed out that 'controls over investment in plant and machinery are already almost non-existent and will disappear altogether as and when steel allocations come to an end'.⁽⁹⁰⁾

To look at the long-term problems in a completely general way the CCI had to take into account the problems of controlling investment in recessionary and inflationary conditions. Therefore, although all recent experience had been of inflationary conditions, it was still felt that departments should be prepared for recession. For this purpose the idea of an investment 'shelf' for the public sector was again mooted, though by now there was a much less optimistic air that this would actually work. There had been hopes that nationalisation would provide greater leverage on investment, but the clashes that had already taken place between the government and the boards of public enterprises (notably the British Electricity Authority in 1947), resulted in second thought about this. If the nationalised industries could so vigorously resist cuts in their investment programmes, they might also resist stimulation if they thought that there was no commercial purpose in expansion. However, the CCI did still regard the socialised sector as a useful channel for government influence on investment, and thought that there should be

a continuous process of consultation between the industries and the government.(91)

In inflationary conditions, where the continuation of some of the existing controls might have seemed appropriate to some extent, the CCI concluded that the government should, in the long-term, rely mainly on 'a general counter-inflationary financial policy; aided by measures aimed specifically at investment, such as capital issues control and initial depreciation allowances'. The committee saw limitations in the application of these measures, but thought that they were more desirable than the alternatives of 'absolute authoritarianism' (which was one way of characterising the use of economic controls!), or the payment of subsidies which would in practice be impossible to withdraw. The committee was against any general system of subsidies on the grounds that no-one would then undertake investment without a subsidy.(92) One of the major points in the committee's report was that if a predominantly financial policy was to be followed, then fiscal and monetary policies would have to be harmonised. On this point the report included what were clearly thought to be recent contradictions in policy: the fact that depreciation allowances had been doubled at a time when the IPC had been recommending a decrease in private investment, and also that 'money rates were depressed to the lowest rate on record at the height of the post-war inflationary boom'.(93) In reviewing 'the different tools' the government might be able to use to adjust the level of investment, and 'the different areas of the investment field in which such adjustments might be made', the CCI found the results 'disappointing':

'... each of the separate instruments which we have examined has turned out, on closer inspection, to be a good deal less effective than might have been expected, and in each of the separate areas of investment, not excluding the public sector, the

practical difficulties of harmonising the investment activities of the separate agencies with the investment policy of the central government becomes greater the more closely they are examined. These general conclusions apply, in the long-run, both to measures for restricting investment and to measures for stimulating it, though the difficulties are certainly greater under the latter head'.

Of all its mainly negative conclusions, the CCI was most dismissive of the existing economic controls. Despite this, which was only one of a long line of similar results of official studies, it was not possible to reject out of hand the possibility that controls would have to be retained in the long-term in some form. During 1949-50 the Committee on Economic Controls examined whether any controls would be needed in the long-term, and its papers provide further confirmation of official thinking on this issue. The committee began by posing two very basic questions: (i) what was meant by a "control"? (ii) what sort of economy would there be after 1950? On the first point, the committee defined controls as essentially restrictive: they would be intended to prevent people from doing something they would otherwise have done, rather than to make them do something that they would not otherwise have done. (It was sometimes observed that 'restrictive' controls also caused people to do things they would not have done otherwise, but the crucial difference was that this was not under the direct influence of the government). On the second point it was assumed that the principles of policy would continue to be full employment, balance in external payments, and 'Fair Shares' while scarcities continued.⁽⁹⁴⁾ In answering both its main questions the CEC followed exactly in the footsteps of previous official thinking.

The CEC did not, therefore, come up with any new

thinking about controls, but it did help to crystallise two issues. The first issue concerned the future legal basis for economic controls. Wartime emergency legislation had been framed to allow the government to fashion any tool thought necessary to deal with a particular problem. It was recognised that in the future there could be problems such as scarcities of raw materials; ministers might decide that economic powers should be available for use in such an eventuality; but, as in war, the problems for which the use of controls would be required could not be predicted exactly. The CEC therefore concluded that if there were to be controls, the legal basis would have to be just as broad as in wartime.⁽⁹⁵⁾ The second issue arose from the refusal of ministers to accept the committee's premise that, in drafting new controls legislation, the notion of a control should be restricted to 'restrictive' or 'negative' controls.

The outcome of the various studies that were made under the umbrella of the Government Organisation Committee's comprehensive plan for the review of controls,⁽⁹⁶⁾ including those of the Committee on Control of Investment and the Committee on Economic Controls, can be set down in three simple statements, which were the core of the official consensus on the future of economic controls:

(1) Controls were unworkable, damaging and unnecessary.

(2) Continuation of controls would require blanket legislation similar to that used in wartime.

(3) In future, governments should rely solely on financial instruments to pursue their economic policies.

Ministers were equally united in a conviction that it would be useful to continue economic controls in some form, although they were divided about various subsidiary issues. To this end an Economic Powers Bill was drafted in early 1950, as a result of the work of the Committee on Economic Controls and the Emergency Legislation Committee. The draft Bill followed the wording of the existing controls legislation very closely. When he saw it, Bridges commented: "I have read and shuddered - as I suppose I was meant to". This cryptic remark can best be interpreted as indicating the form that general official opposition to the idea of permanent economic powers initially took: the officials undoubtedly hoped that the ministers would also read the draft Bill and shudder - at its potential for making the Labour government unpopular.⁽⁹⁷⁾ In this they were disappointed: a long and tortuous road lay ahead.

Brook succinctly set out the problems posed by the Economic Powers Bill in a brief for Attlee dated March 29th 1950. The existing controls rested on the Supplies and Services (Transitional Powers) Act, 1945. This could be renewed from year to year, but permanent powers would be needed sooner or later. The questions were: when and in what form? Morrison wanted to pass new legislation before the end of 1950, and 'Officials of the departments concerned have come to the conclusion that it would have to be a Bill taking power, permanently, to operate all the economic controls now in operation'. The government would not need to operate all the controls all of the time, but 'they must retain full power to do so if they are to continue an effective system of economic planning.'⁽⁹⁸⁾ Because of the global nature of the Bill, it would 'certainly look pretty formidable. The critics will be able to say that, for purposes of economic planning in peacetime, the Government are seeking to

retain permanently all the war-time emergency powers (except the power to direct labour) which were conceded in the atmosphere of 1940'. Brook raised the spectre that the Opposition would try to delay the Bill with 'improving' amendments. These might be difficult to defeat, and if passed might leave the government with 'fewer powers than they thought necessary'. Implicitly this was a recommendation to Attlee to drop the Bill.(99)

But ministers did not agree to drop the Bill, which was backed, among others, by Morrison, Jay and Gaitskell. Realising that it would be unpopular simply to make wartime powers permanent, the Cabinet agreed that the draft Bill should be looked at again with the aim of turning it into a more politically attractive 'Economic Planning and Full Employment Bill'. In June a new official committee was set up, again chaired by Gilbert, to try to knock the draft Bill into shape before the summer recess, so that an announcement about it could be made in the King's Speech the following autumn. In July the problem was raised whether the Bill should contain 'positive' powers. To examine this issue a sub-committee of the Production Committee, under Bevan, was set up to consider what powers should be added. The aim was to enlarge the Bill, 'to include positive powers to require the public and private sectors of industry to undertake activities which were necessary in connection with the effective planning of the national resources and the maintenance of full employment'.(100)

Around this time, an interesting practical issue of the use of 'positive powers' arose. A firm was directed to continue producing plaster-board after it had given up to concentrate on more lucrative projects. The questions raised by this were discussed at the Economic Policy Committee,(101) where an extraordinary argument was raised against the use of controls in this case: it was said that the US government was pressing for faster rearmament, and that the British government was claiming

that it could not go faster without re-introducing undesirable wartime controls; if a firm could be commanded to produce plaster-board, then the United States could insist that similar steps be taken for rearmament purposes.⁽¹⁰²⁾ The issue went to Bridges as a 'complicated affair', because the other side of the coin was indeed the question of how to interpret the draft Economic Powers Bill (with its existing emphasis on restrictive rather than positive powers) in relation to the rearmament programme - the achievement of which was rapidly becoming a primary aim of economic policy. It might well become desirable to use powers of direction in that case; so the whole question of 'positive powers' had to be thrashed out. In this discussion it was clear that positive powers were, in official quarters, acceptable in the context of rearmament, but not for civilian purposes.⁽¹⁰³⁾

Bevan's sub-committee only met twice, and the positive powers recommended amounted only to empowering departments to 'buy, manufacture or sell goods for civilian requirements either directly or through an agent' - without any specific ideas about how such powers might be used. Attlee was briefed that this meant, in effect, that Bevan was 'reporting against any wide extension of the Bill' in the way that had originally been proposed.⁽¹⁰⁴⁾ Following this, it had to be decided whether a reference to the Bill with positive and negative powers should be included in the King's Speech. Pressure against this was growing, though Morrison was still 'emphatically' in favour.⁽¹⁰⁵⁾ The Cabinet agreed that there should be a reference to the Bill in the King's Speech,⁽¹⁰⁶⁾ but still objections came, from Gilbert, who insisted that the government should not take positive powers unless it was absolutely clear what they were to be used for.⁽¹⁰⁷⁾ Jay, expressed himself 'strongly opposed' to a 'merely negative and restrictive Bill', which would give the impression that 'planning is

a matter of saying "Thou shalt not". He rejected a number of arguments that had been put forward against the Bill. He did not think that the Bill would cause alarm in industry, as had been claimed. He rejected Gilbert's contention that reasons for powers should be thought out precisely before they were taken. Besides, Jay argued, it had been a weak point in the government's previous employment policy that 'there has been doubt whether the Government has the power in the last resort to start production in a factory built in an area of unemployment, when a private firm will not do so. Indeed, it was just to meet this proven need that the Minister of Health's Committee was set up'.(108)

A new attempt to resolve these issues was made in November, when Gaitskell was invited to submit a memorandum to a reconstituted ministerial committee on the Bill, chaired by Morrison. Gaitskell's view of the Bill goes a long way towards explaining why there was such strong agreement among ministers that both 'positive' and 'negative' economic powers would be required permanently, and is therefore worth a brief summary. Gaitskell argued that the starting point for the Bill should be full employment policy, not the Supplies and Services Act. This would ensure that it only contained powers essential to its purpose. Gaitskell thought that in normal circumstances it would be possible to maintain adequate monetary demand in the home market by monetary and fiscal methods, but circumstances might arise, especially in some sectors of the economy, when there would be a need to 'supplement these methods by more direct action', and for this the government needed extra powers - largely for counter-inflationary purposes: 'The necessity for such controls arises to a large extent because the pressure of demand cannot be kept at the same level throughout the whole economy. For example the pressure on the building industry is likely for many years to exceptionally great. Monetary policy could only

relieve this by a general deflation which would carry unemployment far above the present level'. Controls would keep building in check while the rest of demand was kept high. Similarly, the amount of general stimulation required to eliminate unemployment in the Development Areas would create a serious situation for the whole economy unless it was possible to 'keep a tight hold' on the overall pressure of demand, while taking special steps to increase it in certain areas. In addition, there was a need for controls to restrict imports to essentials and 'to influence the bulk of exports'. Gaitskell therefore proposed that the Bill should contain the following powers of control:

- '(i) Power to control prices
- (ii) Power to ration essential consumer goods
- (iii) Power to allocate materials
- (iv) Power to control building
- (v) Power to control imports
- (vi) Power to determine the proportion of output sold at home or exported.'

In addition, while fiscal and monetary measures would be more important than any other for deflationary conditions, Gaitskell suggested that four other powers might be useful:

- '(i) Powers to stimulate public investment
- (ii) Powers to stimulate private investment
- (iii) Powers of manufacture
- (iv) Powers of purchase.'

He made no further comment on the first group of powers, but reiterated many of the familiar doubts and objections about the second group. Also he felt that the phrase economic planning should be dropped from the title of the Bill: "although the powers we require for this purpose are very much the same as those required for general economic planning, I doubt if we should be wise to put much emphasis on the latter. People will support controls if they recognise that they can prevent

unpleasant things happening, but I doubt if the term economic planning is understood - or if it is, whether it is a popular concept."(109)

The official committee revised the Bill in the light of these views, and reported to ministers with a draft Bill, now retitled the Full Employment Bill, on January 26 1951. It contained phrases to confer 'positive powers, exercisable in times of actual or threatened industrial depression, to stimulate private capital investment and to purchase capital goods on public account', as well as a number of other changes. But the committee pointed out that the purpose behind the Bill had also changed. Originally, when Gilbert's CEC committee had reported in March 1950, before the outbreak of the Korean war, the aim had been to replace the existing emergency legislation. At the time the replacement had been expected to be a comparatively swift and easy procedure, but rearmament had changed things completely. For example, it had been thought that one regulation, under which goods and chattels could be requisitioned, 'would soon only be required for requisitioning vegetables grown by Members of Parliament which they could not sell to the Ministry of Food without risk of disqualification; whereas now D.R.53 is required (inter alia) for requisitioning ships for use in Korean waters and for requisitioning machine tools due to be supplied under contracts with Russia." In short, the new Bill would not clear up the problems of the emergency legislation: 'The present moment is not an easy one at which to substitute for a Defence regulation code of controls, now again made specifically applicable to defence purposes, another code in which the emphasis is laid on long-term economic objectives.'(110) In early February the ministerial committee met, and decided to recommend to the Cabinet that the Bill should not be introduced. The Cabinet agreed, (111) and there the matter rested.

Nevertheless, there is no reason to doubt that Gaitskell genuinely believed in the arguments for the Economic Planning and Full Employment Bill that are quoted above. His biographer notes that he had put a similar view to the Economic Policy Committee earlier in the year, and that he saw the major problem of democracy as holding to full employment without inflation. Gaitskell's recipe for this, as approvingly summarised by Dalton, was always to have 'a bit of inflationary pressure, but use physical controls to prevent it breaking through'. Indeed, Dalton recommended to Attlee that Gaitskell should become Chancellor on the basis that he had a 'masterly' approach to this problem - and that he could tackle the officials on it.(112) The argument around the Economic Planning and Full Employment Bill, and the reasons that Gaitskell gave for wanting to obtain powers 'much the same as those required for general economic planning', are therefore decisive proof that the idea of economic planning had not faded away before 1951. It was the officials who were most diligent in consolidating the wartime consensus as represented by Employment policy, because they were explicitly seeking a supra-party view of economic objectives and organisation. But in their opposition to the continuation of economic powers in the long-term, the officials were fundamentally at odds with the Labour ministers. The dropping of the Full Employment Bill meant that for many years to come, after the emergency powers were finally allowed to lapse, fiscal and monetary instruments were to bear almost the whole weight of economic policy. This was the result of a conflict that was fought throughout the period of the Attlee governments, rather than the consolidation of a consensus.

CHAPTER 7 - REFERENCES

- (1) CAB 21 2245
- (2) Dow, J.C.R. The management of the British economy 1945-60, 1970, p.41
- (3) Dow, op.cit., ibid.
- (4) T 229 53
Also, see Williams, P. Hugh Gaitskell, 1979, pp.199-200 for a summary, by Gaitskell and Jay, of the arguments which won them over to devaluation.
- (5) T 230 143
T 229 308
- (6) CAB 124 1139 Brief to Morrison, 23/6/49, on EPC(49)64
- (7) Dow, op. cit., ibid.
- (8) CAB 130 35 Gen 219, Report of official working party on the consequence of ERP, 8/3/48
- (9) T 229 212
- (10) The account of the devaluation discussion which follows is based mainly on the bound volumes of memos and correspondence made for the permanent secretary to the Treasury, E.E. Bridges:
T 269 1 - 5
- (11) T 269 1
- (12) CAB 21 2245
- (13) T 269 2
- (14) T 269 1
- (15) T 269 1
Also, CAB 128 21, Note of meeting of ministers at Chequers, 19/8/49: Cripps, after his return from Switzerland, "expressed himself as still not wholly convinced that we should benefit on balance from devaluation. But in the course of discussion he accepted the view of his colleagues that devaluation would be in the interest of this country as part of other arrangements to be made in the Washington discussions." To Cripps these 'other

arrangements' signified that circumstances had changed since he had made his public statements, thus letting him off the hook morally.

- (16) T 269 1
- (17) T 269 1
- (18) T 269 1
- (19) PREM 8 976 The Bank's paper was circulated to the Economic Policy Committee by the Treasury. Later, after the decision to devalue had been taken, Cobbold wrote to Attlee to assure him that the Bank was not opposing devaluation under all circumstances.
- (20) CAB 124 1166
- (21) T 269 1
- (22) T 269 1
- (23) Schacht had been the architect of German economic autarky under Hitler in the 1930's. In the internal policy debates between 'liberals' and 'planners' his name was invoked by the former as the ultimate intellectual insult to the latter.
- (24) T 269 1
- (25) T 230 143
- (26) BT 11 4137
- (27) T 269 1
- (28) Franks, O.S. Central planning and controls in war and peace, 1947
- (29) CAB 21 2246
- (30) Williams, op. cit., p.197
- (31) T 269 1
- (32) T 269 2
- (33) T 269 1
- (34) T 269 1
- (35) CAB 21 2246
- (36) CAB 21 2245
- (37) CAB 128 16 CM(49)50 28/7/49
- (38) CAB 129 36 Part I CP(49)170, 4/8/49
- (39) T 269 4

- (40) T 269 1
- (41) T 269 3
- (42) Williams, op. cit., p.202
- (43) T 269 3
- (44) T 269 3
- (45) T 269 3 The text of the statement was later
circulated as CP(49)191, on 20/9/49.
- (46) T 269 1
- (47) T 230 169
- (48) T 229 212
- (49) CAB 130 53 Report of a working party on wages
prices and profits, 14/9/49
- (50) CAB 130 53
- (51) PREM 8 973
- (52) Worswick, G.D.N. in Worswick^S, G.D.N. & Ady, P.H.
(eds) The British economy 1945-50, 1952, p.336-331
- (53) CAB 21 2248
- (54) BT 11 4389
- (55) BT 11 4389
- (56) CAB 21 2247
- (57) BT 11 4249
- (58) PREM 8 1183
- (59) PREM 8 1185
- (60) CAB 21 2246
- (61) CAB 21 2247
- (62) T 230 143
- (63) There was also a lively public discussion among
economists about what the rate of unemployment
should be at 'full employment', see Hutchison, T.W.
Economics and economic policy in Britain, 1946-66,
1968, pp.19-37
- (64) T 230 143
- (65) T 230 143
- (66) CAB 124 1167 Morrison was advised in March 1950:
"The Budget has recently been developed as the main
instrument on [sic] economic planning ... All
attempts at economic planning will be wrecked if

that is not maintained as the over-riding function of the Budget". This was written in the context of doubts arising about the wisdom of continuing budget surpluses.

- (67) Cabinet paper CP(50)35
- (68) Cripps was still Chancellor; Gaitskell took over in October 1950.
- (69) CAB 21 2247 Hall to Attlee, 16/3/50
- (70) T 171 397
- (71) T 171 397
- (72) A good example of gloom about the future of of public expenditure under the welfare state can be found in Henderson, H.D. The inter-war years and other essays, 1955
- (73) T 171 397
- (74) T 171 397
- (75) T 269 4
- (76) CAB 21 2248 Bridges to Attlee, 22/7/50
- (77) CAB 21 2248 Ditto
- (78) CAB 124 1167 Brief for Morrison by Nicholson, 2/3/50
- (79) CAB 21 2248
- (80) CAB 134 263
- (81) Williams p.256, p.248
- (82) See above, p.238
- (83) T 222 328
- (84) The essay by S. Golt, included here as Appendix III, was circulated as an EOWG paper, and provides a unique and humorous insight into civil servants' role, as they saw it, under the post-war Labour governments.
- (85) T 229 272
- (86) T 222 328
- (87) CAB 134 307
- (88) CAB 134 95
- (89) CAB 134 63
- (90) T 229 169 In a draft of the committee's final

report the central importance of steel was recognised, but it was judged that supply was already approximately equal to demand; it was one of Proctor's hobby-horses that this justified the immediate ending of control. It can be noted here that steel subsidies were ended on April 1st 1949 and prices were raised by 10%. This was part of the policy of 'disinflation through rising prices'. This phrase sounds rather odd to our ears because inflation has become synonymous with rising prices, but in the 1940's inflationary pressure was 'repressed' in much the same way as it is today in most socialist states. By allowing prices to rise, i.e. by allowing inflation to become open, the symptoms of inflationary pressure, such as queues and shortages, could be relieved, hence 'disinflation through rising prices'.

- (91) T 229 169
- (92) T 229 169
- (93) T 229 237
- (94) CAB 134 95
- (95) CAB 134 95
- (96) See above, p.238
- (97) CAB 21 2145
- (98) CAB 21 2247
- (99) CAB 21 2247
- (100) CAB 21 2248 18/10/50
- (101) T 229 266
- (102) T 229 266
- (103) T 229 266
- (104) CAB 21 2248 18/10/50
- (105) CAB 21 2145 Jay to Gaitskell, 27/10/50
- (106) CAB 21 2145 Cabinet meeting of 19/10/50
- (107) CAB 21 2145
- (108) CAB 21 2245
- (109) CAB 130 60 Memorandum by the Chancellor of the
Exchequer to the ministerial Economic Planning and

Full Employment Bill Committee, GEN 343/1st
meeting.

- (110) CAB 130 60 Report by the Official Committee on the
Economic Planning and Full Employment Bill, 26/1/51
- (111) CAB 130 65 The Cabinet meeting was CM(51)14,
15/2/51
- (112) Williams, op. cit., p. 217. Williams mentions
Gaitskell's part in this discussion while he was
Minister of Economic Affairs, but not his later and
more significant intervention as Chancellor.

CONCLUSIONS

In this thesis the idea that the development of economic policy during the period 1945-51 was a consolidation of wartime consensus about the future, as represented in Employment policy, has been shown to be false. Indeed, from the evidence presented it would be possible to go further and question whether the basis for a consensus about demand management had even been established by 1950-1 - since ministers had not yet fully accepted the idea that, in the long-term, economic policy should depend solely on the use of fiscal and monetary instruments.

To explain this, let us first recall some salient points about the pre-war development of economic planning ideas. In the 1920's economic planning had been advocated by the extreme Left and a few others who thought mass unemployment was a national emergency justifying the overthrow of laissez-faire political norms. This view was rejected by the Labour Party's leadership at that time. Socialism was a distant aim to them, and when in government they followed the principles of orthodox economic policy. In the context of deepening recession during the second minority Labour government of 1929-31, these principles amounted to a form of economic fatalism, which led to the situation where the Labour Party appeared to be a 'Salvation army that took to its heels on the Day of Judgement'.

After the 1931 crisis the idea of economic planning was wholeheartedly embraced by all sections of the labour movement: its general significance was that it represented the antithesis of economic fatalism. Indeed, in the broadest sense the idea of planning encompassed all those who - inside and outside the labour movement - stood for the necessity of more state intervention in economic policy; and at one edge of the spectrum this included Keynes himself. The texture of Labour economic

policy proposals in this period is best grasped from Dalton's Practical socialism for Britain. The ideas of economic planning presented there can be criticised as eclectic by comparison with the pure economic analysis with which Keynes operated in the 1930's; against this, it should be recognised that the Keynesianism derived from the General theory of employment, interest and money was not designed to solve every practical problem; it was aimed at the abstract problem of dealing with deficient or excess aggregate demand. 'Beneath' this were a multitude of problems such as structural change and regional inequalities. 'Outside' it were the problems of the balance of payments.

This broader range of problems was discussed extensively during wartime reconstruction discussions, which strongly reinforced the idea that there should be radical changes in the conduct of economic policy after the war, though the amount of agreement achieved within the coalition as it tried, in Churchill's words, to 'peer into the mists of the future', was limited. On the assumption that after the war there would be a short inflationary transitional period followed by recession, attention was concentrated on two problems: how to prevent the kind of boom-and-bust that had followed immediately after the First World War; and how to reflate the economy in a depression. The solution of the reflation problem by the maintenance of internal demand raised a number of practical and ideological issues about how to establish the conditions for implementing such a policy, and about how to deal with any likely side-effects. It was recognised that a great deal depended on re-establishing a favourable balance of payments, which depended in turn on many developments which were both unpredictable and outside the government's control, particularly as a liberal multilateral trading system was most favoured form for the reconstruction of the international economy. As post-war events were to show,

the possibilities of domestic economic policy were directly shaped by this objective.

It was easily agreed - deceptively so - that the stabilisation problem in the transition would be solved by the continuation of wartime measures. But the most basic idea of transitional planning, the use of wartime controls in whatever ways might be necessary to ensure stabilisation, was not in fact firmly fixed. The arguments raised towards the end of the war about a 'return to normalcy', and the practical obstacles to the achievement of major economic aims by the use of controls which were predicted by officials, show that the consensus on this aspect of wartime reconstruction planning was flimsy. The shaky assumptions and disagreements of reconstruction planning lead to the conclusion that the consensus within the wartime coalition was limited and tentative, and it is therefore hard to sustain the idea that Attlee governments were consolidating it. Indeed, their experience inside the coalition confirmed to Labour ministers the need for their planning policy. To them the policy announced in Employment policy did not go far enough, in the sense that the means proposed were not sufficient to achieve the end.

By promising to 'plan from the ground up' the Labour Party certainly distanced itself from the anodyne statements of Employment policy in the 1945 election campaign. But its initial implementation of the policy of economic planning was weak. The Prime Minister was not drawn deeply enough into the economic planning machinery; no Central Economic Planning Staff was set up; Morrison was very keen on the idea of planning but was fully occupied with Parliamentary business in general and the nationalisation programme in particular. There was a tendency to departmentalism, which exacerbated differences between ministers and hindered the development of a consistent set of planning objectives

and the integration of different aspects of policy. Thus, Cripps found himself on his own when he made proposals on relations between government and private industry; and Dalton at first sought to keep budget policy away from economic planning as a whole. There was no general review of controls, and there was unnecessary confusion about labour controls. 'Licence inflation' developed unchecked in steel allocations and the building programme. Worst of all, there were inadequate preparations for a fuel crisis, which was an obvious threat. In all this, incompetence and difference of opinion played some part. To some extent, however, the failure to act to bring the situation under control is explained by a reluctance to reduce programmes. Cuts were more or less continuously urged by officials, but their views were pushed aside until after the convertibility crisis. It would be wrong to say that this was simply irresponsible. The government had long been advised that recession was just round the corner. Because of this, the reconstruction schemes were viewed as a 'reserve of work'. In this perspective licence inflation was not as irresponsible as it might appear with hindsight.

Nevertheless, the government cannot entirely escape the criticism that it failed to get to grips with the problems of inflationary pressure. The circumstances in which the government's showpiece of democratic planning, the Economic Survey for 1947, was launched vividly illustrates this. No way was found to close the inflationary gap that was revealed by initial studies without making optimistic productivity assumptions. This 'failure', however, can be put in perspective: productivity was, over the next few years, to rise faster than it had in the inter-war period. More important was the paradoxical situation that arose from the fuel crisis. The government was forced to tighten up its planning machinery as an emergency measure, while the considered plan was called into question even before it

was published. Subsequently, the government faced an uphill struggle against loss of confidence in its planning policies. Even the strongest display of determination after the outbreak of the fuel crisis could not alter or hide the fact that there had been inadequate preparations beforehand.

Furthermore, despite the adoption of the fuel and power expansion programme, the firmer approach to fuel allocations, and the setting up of the Central Economic Planning Staff, there was a period of 'drift' in economic policy throughout the first half of 1947, because the convertibility crisis was brewing and ministers and officials could not agree on how to meet it. Morrison pushed the slogan - unrealistic in the short-term - of 'Planning for expansion', while officials wondered what the aims of planning really were. There was a growing polarisation of views about planning, as anti-planners argued that the transitional use of economic powers had been mismanaged, and that the eventual date of equilibrium - after which controls could be relaxed or abandoned - was being delayed.

The convertibility crisis stopped the rudderless motion from crisis to crisis. Questions were raised about the 'progressing' of policy; economic policy machinery was completely reworked; new programmes were adopted for exports and investment; there was a crucial change towards a disinflationary budgetary policy; and firmer control of requirements was accepted because it was at last realised that supplies could not be increased in the short-term. All this betokened a new mood, at least among ministers. Problems about the use of controls that had not been studied in depth since the reconstruction discussions were now looked at afresh, as it seemed that some controls might have to be retained in the long-term. However, the whole of this effort was provoked by a crisis in external economic relations; and the belief that a liberal international trading system

provided the best hope for a prosperous Britain in the future was still strong. While there was a turn towards partial autarky after the convertibility crisis, and no-one could be sure whether this would be for six months or ten years, there was still the hope that dollar aid would be renewed in some acceptable form. In retrospect, the policies initiated after the convertibility crisis appear more significant as a means of demonstrating that Britain was putting its house in order prior to receiving further dollar loans, than as a determined attempt to implement economic planning.

Pessimism which lasted throughout the rest of 1947 was replaced by optimism as the extent of economic recovery became obvious during 1948. Recovery was due to a number of factors: to natural processes of recovery from war production; to actions by the government (in particular its vigour in pursuing the export drive and disinflationary budget surpluses); and to the advent of Marshall Aid. With an easing of constraints on supplies, the export drive succeeded without the drastic use of controls which had been contemplated in the autumn of 1947, while investment programmes increased despite the firm initial intention to use controls to reduce them. Meanwhile, a series of official studies stressed the practical difficulties of economic planning using controls, and tried to establish the case for using financial instruments as an alternative. The review of controls which was begun in the autumn of 1947 turned into a fashion for decontrol, most evident in the Board of Trade, but also present in other parts of the economic policy machinery. The urge to get rid of 'physical' or 'direct' controls went hand-in-hand with the development of disinflationary budgetary policy. The connection between deflation and decontrol can be seen very strongly in the official discussions of the time. There was no form of control which did not come under critical scrutiny, even though it proved impossible in the short-

term to remove a number of them.

In this situation some tried to reinterpret the idea of economic planning. Thus, Hall presented the Budget as the main instrument of economic planning. One thing above all is certain, the consensus among officials was that governments in future should rely on fiscal and monetary instruments alone to achieve economic policy objectives - whether circumstances were inflationary or recessionary. To most, the overturning of the traditional idea that budget policy should have no wider role than balancing the government's income and expenditure, was probably about as revolutionary as they were prepared to be. Admittedly this was a step forward from the wartime 'consensus' which did not manage to arrive at this point, but it was probably achieved so easily because of the greater acceptability of having budget surpluses as a counter-inflationary weapon, as against budget deficits as a reflationary weapon.

With recovery in 1948 the movement towards decontrol was swift, and at the time of devaluation the difficulties of those who still wanted to press on with previous policies were mercilessly exposed. Due to the recession in the United States the government was faced with three fundamental choices: continuing with the 1947 policies, devaluation with some other measures, or orthodox deflation. Against the 1947 policies it could be argued that conditions had changed, or that the policies had never worked. Once again, a crucial argument was that an intensification of the 1947 policies would put the achievement of the 'one world' of liberal trading in jeopardy for many years. The point that confidence in Britain was dependent on overseas perceptions of domestic policies was pressed home hard by senior officials. The outcome was devaluation, with more discipline over government expenditure as an additional measure. This latter policy eventually opened deep fissures within the government, when it became clear that

overall control of public expenditure required restraint in the growth of NHS expenditure but was compatible with a massive acceleration of military spending.

It would be wrong to say that by this time commitment to the policy of economic planning had completely faded away, because there was the very significant controversy over the draft Economic Powers Bill, which became the Economic Planning and Full Employment Bill and finally the Full Employment Bill. Perhaps the most significant thing about this controversy is that it reveals in precise terms the gulf between the opinions of officials and ministers about the long-term future of economic policy. As already mentioned, from 1948 there was a concerted attempt by officials to establish conditions in which controls could be replaced by fiscal and monetary instruments. But because there was still a danger of open inflation, a cautious approach was required. One can imagine that a high official of this time would have made short work of the kind of arguments put forward by John Jewkes in Ordeal by planning - while agreeing with his general sentiments. For the views of most of the officials coincided very closely with Keynes's, which he expressed in his letter to Hayek about The road to serfdom: that there should be more planning than before the war, but in an atmosphere in which a purely capitalist philosophy remained dominant. At their most extreme, officials condemned the use of controls which interfered with individual economic choice as 'absolute authoritarianism'. Not surprisingly, the attempts made by officials actually to formulate ideas on economic policy on this basis led them to be hostile towards practically everything that the Labour ministers did - or wanted to be able to do - in the name of economic planning.

The dispute over the continuation of economic powers reveals that as late as 1950-1 there was a wide gap between the views of officials and ministers. Officials

were at this time trying to establish a supra-party view of economic policy, sticking closely to the ideas in Employment policy. Labour ministers, including Gaitskell, were still sceptical that the chief aim of economic policy, full employment without inflation, could be achieved with fiscal and monetary instruments alone. Indeed, Gaitskell argued that most of the powers required for 'general economic planning' would be required to cope with the problems arising either from inflationary or deflationary conditions. This could not be said openly, though, because by 1950 economic planning had become unpopular.

The officials resisted such arguments as far as possible. Of course, the officials' views were not usually expressed in ideological terms; and they were able to produce some very strong practical arguments against controls. Moreover, ministers had been very reluctant to use controls until they were forced to react to a crisis. Yet, as Gaitskell put it, controls would only be justifiable to the public if they would prevent something very unpleasant happening. The fuel crisis is a case in point: no adequate preparations had been made despite the warnings. Was Gaitskell, therefore, being realistic in supposing that controls would be used effectively as a preventative measure? It would be difficult to imagine inflationary conditions of greater severity than those of 1945-6, short of war; yet the government had been very reluctant to use controls, preferring to take an optimistic view of the situation until it was too late. Gaitskell had also come down on the side of devaluation in 1949, and against the intensified use of controls in balance of payments policy. Therefore in terms of their own past actions the Labour ministers were on weak ground in arguing that in the future, when any inflationary pressure was likely to be much milder than that already experienced, permanent legislation to provide governments with sweeping economic

powers would be useful.

The nub of the officials' opposition to permanent economic powers was that they wanted to restrict economic policy to the use of fiscal and monetary instruments. Yet it had not been demonstrated that such limited instruments, though they might preserve the maximum economic freedom, were likely to be sufficient to support full employment without inflation. If I had been writing this conclusion a few years ago I might have been tempted to fall in with the general consensus that full employment sustained by demand management was an established, irreversible fact. Today the political objective of 'a high and stable level of employment' has been rejected because it has proved impossible to achieve it with the restricted instruments of demand management, even though these have been far more powerful than those envisaged in the reconstruction discussions. In short, while the arguments of the ministers may have been weak in many ways, it is legitimate to conclude that the officials have been proved wrong by events.

Appendix I MINISTERS AND OFFICIALS

A brief guide to posts held by most of the ministers and officials mentioned in the text.

Source: Who's Who, various years.

MINISTERS

Anderson Sir J.	Lord President, 1940-3 Chancellor of Exc., 1943-5
Attlee, C.R.	Deputy P.M., 1942-5 Lord President, 1943-5 Prime Minister, 1945-51
Barnes, A.	Minister, Transport, 1945-51
Beaverbrook, Lord	Lord Privy Seal, 1943-5
Bevan, A.	Minister, Health, 1945-51
Bevin, E.	Minister, Labour, 1940-5 Sec. of State, Foreign Affs, 1945-51
Cherwell, Lord	Paymaster-General, 1942-5
Churchill, Sir W.	Prime Minister, 1940-5
Cripps, Sir S.	Minister, Aircraft Production, 1942-5 President, Board of Trade, 1945-7 Minister, Economic Affairs, 1947 Chancellor of Exc., 1947-51
Dalton, H.	President, Board of Trade, 1942-5 Chancellor of Exc., 1945-7
Gaitskell, H	Parl. Under-Sec., Fuel and Power, 1946-7 Minister, Fuel & Power, 1947-50 Minister, Economic Affairs, 1950 Chancellor of Exc., 1950-1
Isaacs, G.	Minister, Labour, 1945-51
Jay, D.	Economic Sec., Treasury, 1947-50 Financial Sec., Treasury, 1950-51
Lyttelton, O.	Minister of Production, 1942-5
Marquand, H.	Paymaster-General, 1947-8
Morrison, H.	Sec. of State, Home Affs., 1940-5 Deputy P.M., 1945-51

	Lord President, 1945-51
Shinwell, E.	Minister, Fuel & Power, 1945-7
	Sec. of State, War, 1947-50
Strachey, J.	Minister, Food, 1946-50
Wilmot, J.	Minister, Supply, 1945-7
Wilson, H.	Secretary, Overseas Trade, 1947
	President, Board of Trade, 1947-51
Wood, Sir K.	Chancellor of Exc., 1940-3
Woolton, Lord	Minister, Reconstruction, 1943-5

OFFICIALS

Allen, G.C.	Ass. Sec., Board of Trade, 1941-4
	Adviser on industrial location, Board of Trade, 1945-6
Barlow, Sir A.	Joint 2nd Sec., Treasury, 1938-48
Beveridge, Sir W.	Chairman, Inter-dept. committee on Social Insurance and Allied Services, 1941-2
Bretherton, R.F.	Economic Section, 1949-51
Bridges, Sir E.E.	Cabinet Secretary, 1938-46
	Perm. Sec., Treasury, 1945-56
Brook, Sir N.	Perm. Sec., Office of Min. of Reconstruction, 1943-5
	Additional Cabinet Sec., 1945-6
	Cabinet Secretary, 1947-56
Brown, A.J.	Economic Section, 1945-47
Cairncross, A.	Economic Adviser, Board of Trade, 1946-9
Chantler, P.	Economic Section, 1945-7
	Economic Adviser, Min. of Fuel & Power, 1947-51
Chester, D.N.	Economic Section, 1940-45
Dow, J.C.R.	Economic Section, and Adviser to Treasury, 1945-54
Eady, Sir W.	Joint 2nd Sec., Treasury, 1945-52
Franks, Sir O.S.	Perm. Sec., Supply, 1945-6
	Ambassador, Washington, 1948-52

Gilbert, Sir B.	Joint 2nd Sec., Treasury, 1944-56
Gorell Barnes, W.L.	P.M.'s political adviser, 1947
Hall, Sir R.	Adviser, Board of Trade, 1946-7
	Director, Economic Section, 1947-53
Helmore, Sir J.	2nd Sec., Board of Trade, 1946-52
Hopkins, Sir R.V.N.	Perm. Sec., Treasury, 1942-5
Jewkes, J.	Principal Ass. Sec., Office of Min. of Reconstruction, 1943-4
MacDougall, Sir G.D.	P.M.'s Statistical Section, 1940-5
Marris, R.	CEPS, 1947-50
Meade, J.E.	Chief Ass., Economic Section, 1940-5
	Director, Economic Section, 1946-7
Merriam, Sir L.	Examiner of Controls, Board of Trade, 1948-50
Michaels, M.I.	Ass. Sec., Min. of Health, 1946-54
Nicholson, E.M.	Sec. of Off. of Lord Pres., 1945-52
Plowden, Sir E.	Chief Planning Officer and Chairman of Economic Planning Board, 1947-53
Proctor, P.D.	3rd Sec., Treasury, 1948-50
Robbins, L.	Director, Economic Section, 1943-5
Robinson, E.A.G.	CEIS and Economic Section, 1939-42
	Economic Adviser and Head of Programmes Division, Min. of Production, 1942-5
	Economic Adviser, Bd. of Trade, 1946
	CEPS, 1947-8
Sayers, R.S.	Economic Section, 1945-7
Smith, F.W.	2nd Sec., Treasury, 1948-51
Tress, R.C.	Economic Section, 1941-7
Weeks, H.	Member of EPB, 1947-8
Woods, J.H.	Perm. Sec., Board of Trade, 1945-51
	Member of EPB, 1947-5

Appendix II

For discussion on
Tuesday, 22nd November, 1949,
at 6.15 p.m.

CONFIDENTIAL

THE BOARD OF TRADE PRODUCTION DEPARTMENTS AND THEIR RELATIONS WITH INDUSTRY

1. Administrative Civil Servants as a class probably find it pretty difficult to answer the question "But what do you do?" None of them find it more difficult than one who is serving a term in a production department, or, as it is now more commonly coming to be called, a "production authority". In the end it usually comes down to his saying, "Oh, well I take an interest in hard haberdashery", or "Oh, well, I look after the chaps who make shop fittings".

And the odd thing is that those two phrases "take an interest in" and "look after" are really just about as near as you can get, in most cases, to describing the job a production authority does. What it doesn't do - as of course anyone who has heard of the Holy Roman Empire could tell you off his own bat - is to produce anything or to exercise very much authority.

2. The first - and very nearly the last - function a production authority performs is to be a post office, or, to be more precise, part of a post office - a letter box. Let us say that the particular production authority we are dealing with is the one for clothes-pegs. (I am not sure offhand whether at this moment my own Branch may not in fact be the production authority for clothes-pegs; who is the production authority for what depends on a complicated theology.) Two or three clothes-peg

manufacturers tell their trade association - the National Federation of Washing-line, Clothes Maidens and Clothes-pegs Manufacturers Association - that the quality of the material they are getting for fastenings for pegs is deteriorating, and representations should be made to the Government about it. The Federation's President - who controls 85% of the total output - hears that a large aircraft firm are planning to make metal clothes pegs from their scrap; he brings it up at the Joint Industrial Council, and both employers and employees (who are organised partly in the Clothes-peg Pinners' Society and partly in the Transport and General Workers Union) agree that this is a grave threat to the security and well being of the established firms and the established workers in the industry, and the Government should put a stop to it. The Member of Parliament for Chorlton-under-Twistie gives notice one Friday that on the following Tuesday he will ask the President of the Board of Trade whether he is aware that housewives in his constituency are finding it impossible to buy clothes-pegs, and that there is consequently grave hardship and risk to health because of the prevalence of dirty linen, and what steps the President proposes to take to increase output of this vital commodity. (The Question is really designed, of course, to give the hon. Member an opportunity to ask an awkward Supplementary about the Cabinet washing dirty linen in public.) A firm of clothes-peg manufacturers want to rebuild their factory destroyed by fire; another firm want the Board of Trade to issue an Industrial Development Certificate in their favour; a third firm want to import a machine which will boost their output of clothes-pegs from 2,000,000 to 3,000,000 a day. The Federation is gravely concerned at the competition they face through imports of clothes-pegs from Morocco. And, once a year, the Federation is holding its annual lunch, and would like their dear friends from their production authority to join them. Sooner or later letters about

all these things will find their way to the desk of the Assistant Secretary who is at the head of the Branch which is the production authority for clothes-pegs, or to the Principal or Senior Executive Officer who is his chief lieutenant, and who really knows what's cooking in the clothes-peg world.

3. And with all of them he deals in one way or another. First of all, of course, and whether or not delay in dealing with other work means shutting of factories, falling off of exports, or chaos and desolution, he must, in the interests of the democratic system, deal with the Parliamentary Question, which has been housed in a bright orange folder instead of the plain folders which less influential letters rate. He advises the President to tell the hon. Member that there is no reason to suppose that the shortage is any worse in Chorlton-under-Twistie than in other similar areas, but that additional quantities of softwood are being allocated, and some general improvement in supplies may be expected - or alternatively that no general improvement in supplies is to be expected because all the suitable softwood is going into the manufacture of duckboards for export; and adds a suitable little note for the Supplementary. He sends the complaint about the quality of fastenings to whoever is the production authority for clothes-peg-fastenings, probably someone in the Engineering Industries Division of the Ministry of Supply, with a request for comments (marking the file to be brought forward in 14 days). He writes to the J.I.C. to say that the Government have no power to prevent new entrants into the clothes-peg industry, since (after loud clamour from the industry about the stifling effects of controls and in the teeth of the industry when it came to the point) the Treen and Miscellaneous Wood Manufacturers (Production and Distribution)(Control) Order, 1941, S.R. & O. 1941 No. 1473 (as amended) was thrown into a "bonfire". He looks

at the record of the firm who want a building licence; finds from a report made by the Regional Office that they have recently despatched a large consignment to a department store in Denver, Colorado, and have confident hopes of repeat orders, and of starting a Middle-West boom in British clothes-pegs, and minutes his opposite number in the Priorities Division (who will have to deal with the Ministry of Works on it) that the Board of Trade should support the issue of a licence. He sends the I.D.C. application to the Distribution of Industry Division, who will deal with it in the light of his comments on the firm's export and general capabilities, against their general background policy on industrial location; and does much the same sort of thing with the import licence application. He tells the Federation as politely as possible that he doesn't care a damn how much competition they get from the Morrocans. And finally he accepts the invitation to lunch, duly goes to the Connaught Rooms on the appointed day, eats the standard lunch of hors d'oeuvres, poulet poele and poire melba, and goes through the standard conversations with the ex-President of the Federation sitting on his left and the Secretary of the Association of Washing-day Accessory Distributors on his right.

4. So far we have dealt only with the reaction of our production authority to what comes to him from outside. But a good deal also happens within the Government machine which has to be communicated to the industry; this is a two-way traffic. The raw materials which the industry uses may be scarce ones which are subject to an allocation system. If they are, somehow or other the amount which is to be provided for making clothes-pegs, as an element in maintaining the essential supplies needed for the life of the community, has to be fixed; and when the total has been fixed, the method by which this total has to be shared out among the firms in the

industry has to be settled. No one has yet, to my knowledge, succeeded in producing an answer to the first of these questions which he knew to be the right answer, or to the second of them which was demonstrably and universally equitable. However, if the machine is to work at all someone has to take a shot at saying how much softwood and how much steel is needed; the production authority gathers such information as he can by enquiry from and discussion with the Federation, thinks of a number, and adds to it 10% or whatever figure he thinks is likely to get knocked off the figure he submits by the inter-Departmental Committee, presided over by the Economic Secretary to the Treasury. In the event, the amount that gets knocked off is always more than he expected; and he goes back and breaks the news to his industry. By this time, of course, he has become quite a familiar figure with the officers of the Federation and a few of the more active members of the Federation. He has visited a number of factories, and learnt something about the techniques of the industry; he can tell the difference between the turned clothes-peg made in the main centre of the industry in Somerset, the whittled peg made in Lancashire, and the peg made by the new (and still secret) process developed as a side-line by one of the washing-line manufacturers, much to the chagrin of their fellow members of the Federation. He knows a fair amount about the personalities, and the cross-currents of likes and dislikes, rivalry and inter-connections, between a lot of the firms. He has put up the Treasurer of the Federation (whose firm have a good export record and have set a good example in the establishment of joint production committees in their factories, and who is personally an agreeable fellow who talks sense in meetings and keeps his colleagues in order) for a C.B.E. in the last Birthday Honours list, and is wondering whether he mightn't try to get the Secretary of the Trade Union an M. or an O. in the next. But he still hasn't

discovered how to share out 40 standards of softwood between 375 firms, who between them want, or say they want, 72, without creating a lot of malcontents, most of whom will descend on him or his staff breathing fire and fury, many of whom will write to their M.P.s, who in turn will demand that the President of the Board should reverse the wicked decision which will have such disastrous effects on the constituency they represent, and one or two - but never more - of whom will write nasty letters to say that, of course, anyone knows that you can get all the softwood you like if you are prepared to do things that they aren't prepared to do, and they will take steps to see that a real scandal is uncovered. The production authority's officials are therefore pretty fully occupied between allocations in dealing with the aftermath of the last one.

5. Other things are going on simultaneously. A trade agreement has been made with Zanzibar in which His Majesty's Government have undertaken to use their best endeavours to see that Zanzibar is able to obtain in the United Kingdom 4 million clothes-pegs. The Anglo-American Productivity Council have suggested that British clothes-peg manufacturers could learn a great deal from American methods, and would it not be a good idea for a team of employers and workers to go to America to see? The British trade consuls in the United States believe that there is a large market for clothes-pegs in the Southern States, and can the industry be encouraged to do some market research? The President is making a speech in South Wales; how is the proposal which one firm put forward some months ago for transferring their output to the Development Area getting on? And so on, and so on. On all these questions there will be enquiry of the industry, calls for reports by the Regional Office on particular firms, a great deal of activity which must, in the nature of things, be ephemeral and pointless. And

above all, in the present circumstances, there will be the losing of no opportunity to exhort and admonish. We must export, we must earn dollars. We, the production authorities, are the channel through which Government policy is expounded to our industries. We post a few letters of our own in return for the many that are posted to us.

6. But here too - that is in the transmission of policy through the channel of the production authority - the traffic is two-way; the production authority is a Janus figure. For just as he transmits and expounds his masters' policy to his industry, so also does he transmit his industry's views on policy, and their claim to their share of whatever is going, to his masters. He is, indeed, in a very real sense, the representative of and the advocate for their interests, inside the government machine. He engaged in their behalf in the most violent inter-departmental warfare; he distorts the facts and embroiders the truth to get whatever he can for them in the way of allocations of scarce materials, claims on investment resources, and advantages, indeed, in every field of Government policy. And so there is built up at the very centre of government a delicately poised system which can produce approximately right answers only as a result of every interest - the clothes-peg manufacturers and the boat builders, the motor car makers and the upholsterers, the whisky distillers and the bacon curers - being adequately represented, not only by its own organisation outside government, but by the production authority inside government.

That, I think, is where I came in. "Production authority, what do you do?" "Oh, I take an interest in clothes-pegs; I look after the chaps who make them."

7. And to conclude: it must be clearly understood that all the characters in this story bear a startling resemblance to lots of real guys; but the whole thing has been written in invisible ink, and the writer takes no responsibility for any of the statements made. Any complaints must be addressed to the production authority for seminar papers - whose address, I am glad to say, is not to be found in the Imperial Calendar.

S. GOLT

Board of Trade,
November, 1949

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T	171 390	1947	Ditto, Vol II
T	171 391	1947	Ditto, Vol III

T	171 392	1947	Supplementary Budget 1947, Vol I, papers leading up to
T	171 393	1947	Ditto, Vol II
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T	172 2023	1947	The economic crisis by S.P. Chambers
T	172 2028	1947	Food Imports
T	172 2031	1947	Allocations of steel

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T	216 89	1946-9	Staff employed in operating controls
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T	222 213	1947-50	Controls: general papers
T	222 214	1947-8	Co-ordinating Committee on Controls: correspondence
T	222 215	1948-9	Ditto
T	222 216	1949	Ditto
T	222 217	1949-50	Ditto
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T	229 11	1947	Imports: programmes for 1947
T	229 12	1947	Balance of Payments Working Party
T	229 14	1947	Balance of Payments Working Party: financial measures
T	229 17	1948	Materials: replacing of controls
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T	229 21	1947	Morning staff meetings
T	229 29	1947	Economic Planning Board, minutes of meetings
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T	229 108	1947	Ditto, third meeting
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